

FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

No. 29,823

Debt: encouraging signs from the
Third World, Page 12

Wednesday January 8 1986

D 8523 B

Austria	Sk. 20	Indonesia	Rp 2500	Portugal	Esc 90
Bahrain	Dbf. 25	India	Rs 1500	S. Africa	Ric 8.00
Canada	C\$1.00	Ireland	Pts 1500	Spain	Es 4.10
Cyprus	C£2.70	Kuwait	Pts 2000	Turkey	Lir 125
Denmark	Dkr 8.00	Lithuania	Lt 6.00	Sri Lanka	Rp 30
Egypt	£Fr 8.50	London	£Fr 4.25	Sweden	Sk 7.00
Finland	Frk 8.50	Malta	Frk 2.20	Tunisia	DT 0.80
France	Fr 7.50	Morocco	Fr 4.25	U.S.A.	\$1.35
Greece	Dr 6.00	Norway	Dr 2.75	Yugoslavia	Yd 0.60
Hong Kong	HKS 1.20	Peru	Hrs 7.00	Zambia	Db 0.50
India	Rs 15	Philippines	Pes 20	Zimbabwe	\$1.00

World news

Business summary

Channel link talks make progress

Hanson lifts stake in SCM to 60%

Britain and France edged a little closer to an agreement on the choice of a Channel fixed-link scheme after talks in Paris between UK Transport Secretary Nicholas Ridley and French Transport Minister Jean Aurore.

Although the two governments have yet to take a fixed position on the issue, it was clear after the talks that there was no overt clash between the two countries. There was no indication on which of the four competing schemes was being favoured by the two governments.

Page 2

Franco-German pact

France and West Germany agreed to intensify political collaboration through quarterly meetings of foreign ministers.

Hanoi, US accord

US and Vietnamese delegations said they had agreed to work together to solve within two years the issue of hundreds of American servicemen missing in the Vietnam War.

Palestinians jailed

An Israeli military court sentenced eight Palestinians to prison terms ranging from 14 to 28 years for guerrilla activities in the occupied Gaza Strip.

Generals held

Afghanistan has arrested at least four generals in charges passing information on Soviet troop movements to a leading Moslem rebel commander. Western diplomats said.

Police destroy camp

West German riot police with chainsaw forced their way into a protest camp in a Bavarian forest and began demolishing log huts blocking work on West Germany's first nuclear reprocessing plant.

Deputy premier dies

East German Deputy Premier Gerhard Weiss, 66, for 17 years the country's chief Comexon representative, died after a long illness.

Congress team bar

South Africa's prisons service said six visiting members of the US Congress could not see black leader Nelson Mandela in jail.

Two jets crash

At least four people were injured and a pilot was killed when two US Air Force F-15 fighters crashed after colliding in mid-air near the West German town of Zweibruecken.

Bonner surgery

Yelena Bonner, wife of Soviet dissident Andrei Sakharov, will undergo heart bypass surgery soon because treatment with drugs has failed to improve her condition.

S Korea reshuffle

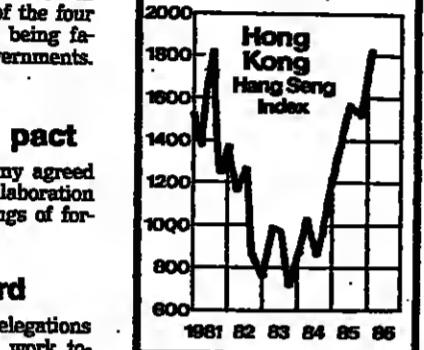
South Korea's President Chun Doo Hwan replaced eight of his Cabinet of 22, mainly ministers with economics portfolios. Page 3

Doctors strike

Italian hospitals provided only emergency services after about 100,000 doctors began a three-day strike for higher salaries and better status.

Rebels kill 46

Karen separatist rebels killed 46 people and wounded 136 others in an attack on a ferry boat in south-east Burma.



HONG KONG stock market surged as the Hang Seng index jumped across the 1,800 threshold with a 18.94 advance to a record 1,815.53. Utilities and properties featured.

Page 34

TOKYO: Prices lost more ground and the Nikkei average dropped below 13,000 for the first time since December 21 to end down 62.55 at 12,991.24. Page 34

LONDON: Equities were hit by the threat of higher short-term rates. Gilts, too, had another poor day. The FT Ordinary share index shed 6.3 at 1,133.3 and the FTSE 100 dropped 8.9 to 1,415.2. Page 34.

WALL STREET: The Dow Jones industrial average closed up 18.12 at 1,565.71. Page 34

STERLING was on the whole firmer in London, gaining 40 points against the dollar to \$1.44, and also rising to SF 2,975 (SF 2,07) FF 7.48 (FF 7.5) and Y20145 (Y201.0). On Bank of England figures, the dollar's exchange rate index fell to 123.1 from 123.6. Page 27

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GOLD rose \$1.50 on the London bullion market to finish at \$328.75 and was also higher in Zurich at \$330.20. In New York the Comex settlement was \$332.80. Page 26

DIAMONDS: World sales of rough (uncut) gems improved further in the second half of 1985. Sales for the year totalled \$1.82bn, up 13 per cent. Page 26

GREEK current account deficit is likely to top \$3bn for 1985, bigger than the most pessimistic projections. Dimitris Chalkias, the central bank governor said. Page 2

INDONESIAN draft budget points to a year of austerity as a result of falling world petroleum prices. Page 14

SOVIET UNION concluded a deal with Cuba allowing Havana to sell surplus Soviet oil for hard currency. Page 4

INTERNATIONAL HARVESTER, US truck manufacturer, has changed its corporate name to Navistar International. The move reflects the sale of its agricultural operations last June.

HOOGOVENS, Dutch state-owned steel group set for privatisation, has increased profits for 1985 in spite of reduced steel output. Page 16

WESENAN, Dutch foods group, expects profits for 1985 to show a further strong increase. Page 16

ALSTHOM, diversified French heavy engineering group, is looking for foreign acquisitions and alliances to boost its export business. Page 15

REBELS kill 46

Karen separatist rebels killed 46 people and wounded 136 others in an attack on a ferry boat in south-east Burma.

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Europeans raise Westland rescue offer to £75m

BY LIONEL BARBER AND BRIDGET BLOOM IN LONDON

THE FOUR-NATION European consortium headed by British Aerospace yesterday appealed directly to shareholders of Westland, Britain's only helicopter maker, to reject the rival £74m US-Italian rescue plan as a first step towards accepting their own improved £75m offer.

As the consortium unveiled its new offer in London, Mr Paul Quiles, the New York conglomerate it wants to take over, insisted the stand-up to about 60 per cent and putting itself in a virtually impregnable position. The purchases aggravated a political row over the future of Westland after recent sharp exchanges. Both avoided public statements although the propaganda of both sides continued. Page 14

however, Mr Antichi said that there was no question of the Italian company cancelling the collaborative project if it pursued its favoured solution with Sikorsky/Fiat.

Further public support from the West German and Italian governments was likely to be forthcoming, said senior executives from Messerschmitt-Bölkow-Blohm and Agusta, two of the consortium's members. According to Mr Arnaldo Antichi, senior vice president of Agusta, Mr Bettino Craxi, the Italian Prime Minister, had expressed support for the European offer in a letter to Mrs Margaret Thatcher, the UK Prime Minister, but Downing Street could not confirm this last night.

Answering a question in London, Mr Raymond said: "All the evidence is that it is impossible to stop a one-way street in technology transfer from the United States to Europe. It is almost impossible

to achieve a fair exchange of technology."

Sir Raymond condemned the Westland board's favoured solution involving Sikorsky, the American helicopter maker and subsidiary of United Technologies, the US conglomerate, and Fiat of Italy. He suggested that the deal would in future turn Westland into "an offshore subsidiary of Sikorsky for promoting and manufacturing its products inside Europe" and would eventually lead to total domination of the European helicopter market by one company, Sikorsky.

Sir Raymond said there was no intention on the part of British Aerospace and GEC to launch a takeover bid for Westland. He also said that the consortium had not bought shares in the market, though GEC was a small shareholder in the company.

Mr Bettino was described at a press conference in London by Sir Raymond Lygo, managing director of British Aerospace, flanked by senior aerospace executives from France, West Germany and Italy, as having support to the £75m offer.

Mr Raymond said: "All the evidence is that it is impossible to stop a one-way street in technology transfer from the United States to Europe. It is almost impossible

Continued on Page 14

Heseltine's German ally, Page 2

US rules out military action against Libya

BY REGINALD DALE IN WASHINGTON

President Ronald Reagan has ruled out military action against Libya, at least for the time being, and will concentrate on economic and diplomatic measures in retaliation for last month's terrorist attack on Rome and Vienna airports, US officials said yesterday.

Mr Reagan was expected to announce what officials described as "new economic sanctions" against Libya at a nationally televised news conference later last night, his first in almost four months.

It was unclear what form such sanctions would take, given that Washington has been progressively reducing its economic contacts with Libya since 1981 in protest at the country's involvement in international terrorism.

Administration officials said that while the idea of a military strike had been shelved for the moment, Mr Reagan would keep his military

options open and the Sixth Fleet would be kept on patrol off North Africa. The new strategy was adopted at a meeting between Mr Reagan and his senior advisers on Monday afternoon, they said.

There was considerable scepticism in Washington yesterday over how much "US" sanctions could achieve without allied support. US imports from Libya nearly quadrupled to \$38.6m in the first 10 months of last year, but these were almost all imports of refined oil products which Mr Reagan banned in November.

US exports to Libya totalled \$258.9m in the first 10 months of 1985, sharply up from \$164.6m in the same period of 1984, but were still a long way below the \$813.4m reached in 1981. US imports from Libya reached a peak of \$1.1bn in 1980, before the first US sanctions were introduced in 1981.

Under current US regulations, all American products destined for Libya must be cleared by the US State Department.

Continued on Page 14

Benedetti plan to raise record £432bn on Milan bourse

BY ALAN FRIEDMAN IN MILAN

MR CARLO DE BENEDETTI, the Olivetti chairman, who also controls a personal industrial and financial empire, yesterday announced plans to raise £432bn (\$260m) on the Milan bourse.

The funds are to be raised by issuing new shares for Cofide and CIR, two of Mr de Benedetti's master holding companies, which own important stakes in Olivetti, Pirelli, Buloni and also in publishing, banking, insurance and metals groups.

Taken together, the share issues yesterday represent one of the largest fund-raising operations in the history of the Milan stock market (the record was a £167.5m issue for Fiat). What is also striking about the exercise is that in tapping the market for £260m in the first week of the new year, Mr de Benedetti was raising half as much as he did during the whole of 1985.

It also emerged yesterday that Cofide, which is Mr de Benedetti's ultimate holding vehicle, has built up a 22 per cent stake in Banca Agricola Milanese, a private bank that has been the object of a hostile takeover attempt by Banca Popolare.

operation is the offer of 40m non-voting savings shares at a price of £4,000 each (nominal value of £1,000), to raise £160m. This amount will later be linked to a £160m bond offer for Mediobanca, the Milan merchant bank.

Mr de Benedetti, who owns 68 per cent of Cofide (the Indesme group has 7 per cent and the public 25 per cent), is clearly striking while the Milan bourse is still on its bull run. He will be taking up his own rights on the new Cofide issue.

Last year, the Milan market achieved a boom that saw the share index rise by more than 100 per cent. Mr de Benedetti himself has remarked that the arrival in the past year of new unit trusts that have poured liquidity into the market means that "

EUROPEAN NEWS

UK-French choice of Channel link nearer

BY PAUL BETTS IN PARIS

BRITAIN AND FRANCE edged a little closer to choosing a Channel fixed link scheme yesterday after talks here between Mr Nicholas Ridley, the British Transport Secretary, and Mr Jean Aurore, the French Transport Minister.

It was their first meeting since British and French assessors of the competing schemes handed in their joint

report to the two governments. The latter appear to be moving towards agreement. In any event, it was clear after yesterday's talks that there is no overt clash between the two countries.

Both Mr Ridley and Mr Aurore were reluctant to discuss in any detail their talks which lasted longer than expected. But they said they

planned to hold another meeting soon, probably in London, to see if further progress can be achieved. Mr Aurore called the meeting "very useful" and "friendly."

Mrs Margaret Thatcher and President Francois Mitterrand are due to meet on January 20 at Lille in northern France when they will announce the winner. There was no indication from either

minister yesterday which scheme was being favoured.

In a brief statement the two governments said yesterday that the two ministers had welcomed the "common wish to reach rapidly the stage of signing the Franco-British Treaty." This will take place in the UK next month following up on the Lille announcement.

Poland defends selective debt policy

By Christopher Robins in Warsaw and David Buscan in London

POLAND IS not to blame for favouring its Western creditors over Eastern creditors in reducing its \$20 billion debt, its official spokesman said yesterday.

"We want to treat the Western banks and governments equally, and if this hasn't happened, then it wasn't our fault," Mr Jerzy Urban said.

He was referring to pressure on Warsaw by Western creditor governments to give them equal treatment with the banks after Poland missed a \$500m debt interest payment to Western governments at the end of December.

By contrast, Poland has been urged to repay the banks debt principal, in addition to interest.

A western government official responded yesterday that Poland's official creditors did not "blame" Warsaw for favouring bank creditors in the past.

Banks had regularly signed rescheduling agreements, while for three years, between 1982 and 1984, the governments had refused as a political sanction.

But now that governments had signed rescheduling accords up to and including 1985, they wanted equal treatment with banks, he said.

But Mr Urban also implied that the lack of sizeable fresh western government trade credit, exacerbating the country's acute hard currency shortage, was forcing Poland to fix its debt in real terms.

When Poland signed an agreement last July rescheduling \$12bn worth of 1982-84 official debt arrears, it said new western government credit was essential if the agreement's terms were to be fulfilled.

Referring to reports that Poland had been given until March 31 to make its missed \$550m payment, Mr Urban said: "It is not true that western governments have set a three-month deadline for this payment—the question of repayment has merely been postponed for three months."

He added that "Poland is in constant touch with its creditors and has never in the past and will not in the future take any unexpected steps."

The assurance came on the eve of bilateral government trade talks between Poland and France in Warsaw which are being held for the first time since 1981. France has so far held out the promise of a mere FFr 150m in short and medium-term trade credits.

The meeting comes in the wake of last month's unexpected encounter in Paris between General Wojciech Jaruzelski, the Polish military leader, and President Francois Mitterrand in a sign that both sides are also set to improve political relations which went into sharp decline after the imposition of martial law in 1981.

The French delegation is headed by Mr Jean Michel Baylet, the deputy minister at the French foreign ministry. France has declined in importance as an exporter to Poland in the past four years, owing to West Germany and Britain.

In the first nine months of last year, overall trade turnover fell by 14.6 per cent. In this period French sales fell by 20 per cent to FFr 1.75bn while Polish exports fell by 10 per cent to FFr 2.75bn. Import spending went up by 8.2 per cent, while export earnings close to \$15bn.

French high-tech groups seek to win SDI contracts

BY DAVID MARCH IN PARIS

TODAY FRENCH electronics and high technology companies are stepping up efforts to win contracts under the US Strategic Defence Initiative (SDI) research programme.

Even though the French government remains opposed to the programme on strategic and political grounds several leading French companies, including a number owned by the state, now appear to be taking a more pragmatic view over the need to develop contacts with the SDI Organisation (SDIO) in Washington.

Mr Henri Matra, chairman of the state-owned Aerospatiale group, said yesterday that his company could work for the SDIO if "convergences" emerged between Aerospatiale's interests and the needs of the Department of Defense.

The chairman of another top French electronics group, who asked not to be quoted, said a team from his company would be visiting Washington soon for "exploratory talks" over SDI in areas like command and control systems. "Industrialists have got the message. In Eureka (the French inspired technology collaboration programme) we pay the bill. In SDI, the US government pays. That's worth the price of an air ticket," he said.

Matra, the state controlled defence and electronics group, which was the first big company to announce interest in SDI last summer, has been discussing possible involvement in 15 different parts of the SDI programme.

Greece's current account deficit could top \$3bn

BY ANDRIANA HERODIACONOU IN ATHENS

GREECE'S CURRENT account deficit for 1985 is likely to top \$3bn, overtaking the most pessimistic official projections, according to Mr Dimitris Chalikias, the governor of the central bank.

The Government originally set a target of \$1.7bn.

Mr Chalikias denied Greek press reports that the central bank recently warned the Economy Ministry that excessive public-sector spending is jeopardising a commitment to reduce the budget deficit by 4 percentage points this year.

However he confirmed reports that Mr Evangelos Kourakos, a deputy governor at the bank who has played a key role in securing loans for Greece on the international market, wants to resign. Mr Kourakos, trained in Greece and the US, has been with the Bank of Greece since 1949. According to Greek figures the country's foreign debt at the end of 1985 stood close to \$15bn.

Yugoslav legislation aims to weed out smaller banks

BY ALEKSANDAR LEBL IN BELGRADE

UP TO a third of Yugoslavia's 160 to 170 commercial banks will cease independent operation this year because they do not meet a new legal requirement that they must have a minimum of Dinars 6bn (\$13m) in pooled funds of their shareholder companies and in time deposits.

Most are likely to merge with bigger banks rather than wind up completely.

The Banking Act, which came into effect on January 1 but gives banks until the end of the year to come into line with its terms, is aimed at weeding out the "small fry" institutions.

These were founded more to

fit by 4.5 per cent in the same period. The trade deficit increased from \$4.493bn a year earlier to \$5.32bn. Invisible earnings fell from \$2.795bn to \$2.595bn reflecting particularly the continued recession in shipping.

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West German orders rise

BY RUPERT CORNWELL IN BONN

THE WEST GERMAN economy awoke 1986 with all signs pointing to a continuation of the steady upswing in progress for the best part of three years.

Economics Ministry figures here show that industrial orders climbed nearly 2 per cent in November compared with a month earlier, to stand 3.5 per cent higher in volume terms in November 1984.

Over the year, the 4.5 per cent rise in domestic orders

was more than twice that of export orders, providing further evidence that home demand is taking over as the main driving force behind the economy.

Industrial output stood in October and November 1984 4.5 per cent above the level of the corresponding months of 1984, corresponding to a 6.5 per cent decline in the building sector.

Production of investment equipment was 9 per cent up on a year earlier.

Fisheries compensation report

BY PAY GJESTER IN OSLO

LOSSES suffered by Norway's fishermen as a result of oil industry activities should be made good by the oil companies responsible, not from public funds.

This is the main recommendation of an officially appointed committee which, for the past five years, has been studying the conflict of interest between fisheries and offshore petroleum exploration, production and transport.

The committee, chaired by Norwegian law professor Mr Carl A. Fleischer, made its report to Mr Kari Kristiansen, Oil Minister, late

Talks today on common shipping policies

EUROPEAN Community transport ministers will try to remove obstacles to the way of common shipping policies at an informal meeting in the Hague today, Reuters reports from Brussels.

Bonn Defence Ministry officials say that it is always easier to agree on programmes with the French but joint programming against the threat of cheaper third country carriers restricting access to shipping lanes.

Moreover, Mr Wöerner and Mr Heseltine are close. According to the Defence Ministry here, the two men normally speak to each other once or twice a week. Mr Wöerner is unlikely to be indifferent to any political embarrassment suffered by his British colleague.

Even though may have pragmatic rather than emotional links. Helicopters are the only manned aircraft that MBB makes on its own. After the Second World War the German

airlines became chairmen, man, is still not its own master.

If the European consortium also trying to buy Westland of which MBB is a part fails against the UTC/Fiat bid there seems little doubt that the Germans, if not the French and Italians, would react aggressively and, perhaps permitting, turn their backs on the UK helicopter group.

Officials close to Dr Vogels say he is "extraordinarily keen winning Westland for the European consortium." That means that one of the most powerful men in West Germany, Mr Franz Josef Strauss, premier of Bavaria, is also keen. MBB, though drastically restructured since Dr Vogels became chairman, is still not its own master.

Although it is not a public company, MBB is owned by a string of banking, political and private interests, including the states of Bremen, Hamburg and Berlin, the Bayerische Vereinsbank and the Dresdner Bank.

Krupp, Thyssen, Siemens, Bosch, the Allianz insurance giant and the families that once owned the original three groups that now make up MBB.

Through seats held on a variety of supervisory boards and direct state holdings, Bavaris and Mr Strauss emerge as easily the most powerful interest. So dominant is Mr Strauss that he recently initiated talks with the car producer, BMW, aimed at linking the two groups, without consulting MBB first.

MBB is West Germany's main

contributor to the European Airbus consortium and its leadin

space and missile system manufacturers in competition with Dassault, which employs some 35,000 people and turned in DM 5.7bn (\$1.6bn) in 1984, less than DM 1bn in helicopters.

Group net profits have risen from DM 60.1m in 1982 to close

to DM 100m in 1984. But like most European aerospace companies, its finances are dependent on the public purse and its strategies often mirror the whims of politicians closest to it, in this case Mr Strauss.

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OVERSEAS NEWS

South Korea Cabinet ministers replaced

By Steven S. Butter in Seoul

THE PRESIDENT of South Korea, Mr Chun Doo-Hwan, yesterday replaced eight ministers in his 22-man Cabinet in a major reshuffle affecting a number of economic portfolios.

Mr Kim Mahn-Je, Minister of Finance, has been appointed to the powerful position of Deputy Prime Minister, in charge of economic planning, replacing Mr Shin Byong-Hyun. The Deputy Prime Minister plays a key role in formulating Korea's economic policy. Mr Kim has been a principal architect of financial liberalisation in South Korea, and his appointment is not expected to mark any great departures in policy.

The Cabinet reshuffle had been expected for many months, and may have been delayed in an effort to show continuity at a time when South Korea's economic performance has been sluggish. South Korea's GNP is thought to have grown at least the 5 per cent last year, compared with an original target of 7.5 per cent. Exports last year totalled \$30.15bn, an increase of just 3.1 per cent, which is Korea's second worst performance in more than 20 years, and 2.85bn short of the original target.

Mr Chung In-Yong, director of the Office of Bank Supervision and Reconstruction, has replaced Mr Kim as Minister of Finance. Mr Chung is a career government official.

Mr Choi Chang-Nak, governor of the Bank of Korea, has been appointed Minister of Energy and Resources, while Mr Chon Hak-Ge, director of the Korea Advanced Institute of Science and Technology, has been appointed Minister of Science and Technology.

Mr Park Sae-Jik, a retired general who has been Minister of Government Administration, will become the new Sports Minister. The outgoing minister, Mr Lee Young-Ho, had come under criticism over the handling of negotiations for broadcast rights for the 1988 Olympic Games. The final contract with NBC netted far less than had been originally expected, and a large deficit for the games is now expected.

Nine killed in three days of Sikh violence

At least nine people have been killed in "gun attacks" in the northern Indian state of Punjab during the past three days during a marked increase in violence by Sikh extremists. John Elliott reports from New Delhi.

The Indian Government has ordered the Punjab state government which has been run by the Sikhs Akali Dal Party since regional elections were held three months ago, to strengthen security operations against the extremists.

Pretoria steps up pressure on Botswana over ANC

By TONY ROBINSON in JOHANNESBURG

MR PIK BOTHA, the South African Foreign Minister, yesterday increased the pressure on Botswana to take action against ANC guerrillas operating from its territory.

His latest statement on the border situation came after South African police announced they had killed a suspected ANC activist near East London and found a large quantity of Soviet-made arms in the vehicle he was driving.

In a broadcast on South African radio Mr Botha yesterday warned Botswana that "if our security forces can identify targets I have no doubt they will not hesitate to take the necessary action as long as the Botswana Government does not take effective action to eliminate the menace."

This thinly veiled warning of a possible military strike in the aftermath of last Saturday's landmine explosion which killed two whites 3 km from the Botswanan frontier followed an official letter of protest sent to the Botswanan Government on Monday night.

The possibility of military action, similar to the lightning



Shamir set to accept Taba deal

By Tony Walker in Jerusalem

MR YITZHAK SHAMIR, Israel's Deputy Prime Minister, appears ready to accept terms for a settlement with Egypt of the vexed Taba dispute in the Sinai.

Mr Shamir, who is also Foreign Minister, has agreed in principle with Mr Shimon Peres, the Prime Minister, that a draft package of measures to resolve the Taba issue be presented to the inner Cabinet, possibly as soon as next week.

Israel's Foreign Minister was opposed to Egyptian demands that the Taba question be settled by international arbitration, insisting instead it be dealt with by negotiations.

A compromise appears to have been struck that would allow a mix of conciliation and arbitration plus guarantees of access for the loser to Taba, a narrow strip of land on which an Israeli company has built an hotel.

Israel hung on to Taba, which measures about one square kilometre when it handed the rest of Sinai back to Egypt in 1981 under the terms of their 1979 peace treaty.

The draft package agreed by Egyptian and Israeli negotiators provides for a process of conciliation and if that fails resolution of the dispute by arbitration. Actual terms for the loser would be negotiated before the conciliation and arbitration process began.

Other elements of the package to return fix ambassador to Tel Aviv, withdrawn in 1982 in protest at Israel's invasion of Lebanon, and also the implementation of various commercial and cultural arrangements frozen for the past few years.

An Egyptian policeman, Mr Selman Khater, 25, sentenced to life imprisonment for killing seven Israeli tourists in Sinai last October, was found hanged in a hospital yesterday, Cairo Defence Ministry officials said, Reuters reports.

Military prosecutors began immediate investigation.

UK backs Lagos on debt

By MICHAEL HOLMAN

SIR GEOFFREY HOWE, the British Foreign Secretary, yesterday offered "all possible" assistance to Nigeria in its efforts to resolve its external debt problems in the course of a two-hour meeting in London with Prof Bolaji Akinyemi, the country's Foreign Minister.

The meeting, described by a Foreign Office spokesman, as "friendly and businesslike," will be followed up today with a further round of talks with Sir Geoffrey, Mrs Margaret Thatcher, the Prime Minister, and Mr Leon Brittan, the Trade and Industry Secretary, as well as Treasury officials.

The spokesman said that Sir Geoffrey "welcomed" and recognised the importance of Nigeria's New Year budget, and

Kurds expand area of guerrilla operations

THE ATTACK was to be launched against an Iraqi Army battalion known as Sutek, about 30 km south of the Turkish frontier. It began at about 5.00 pm, an hour before sunset and too late for helicopter gunships or tanks to come to the rescue.

Israeli guards on three hilltop positions were caught lounging outside their bunkers as the initial hail of AK-47 bullets and RPG-7 anti-tank missiles began to explode around them.

In the valley below, mortar shells dropped on the base, and heavy machine-gun fire spattered parked vehicles. An ambush was laid on the tarmac road below to half reinforcements from nearby battalions and brigade bases at Barzivay, 10 km to the west.

A pall of smoke rose above the base, and one of the shells landed alongside an Iraqi emplacement extinguishing machine-gun fire sweeping the ridge where I stood watching the assault. Throughout the day was kept in doubt as to which was the main target: the base itself or the hilltop positions. Some 90 men were deployed to attack the Iraqi posts on the adjoining ridge and it was there the main drama began to unfold.

There was an explosion, a frenetic popping of automatic weapons, and a puff of black smoke as the first report came in over the field radio that one of the partisans had been killed.

Silhouetted against the skyline, a thin line of men ran towards the first position, a squat

Gwynne Roberts several times watched Kurdish guerrillas in action against government troops during his extended visit to northern Iraq. In the second of two articles he recounts one such attack and assesses its implications. His first article appeared yesterday.

bunker, and then minutes later raced on to the second.

Soon, the silhouettes moved to the third emplacement, and within 60 seconds, the defenders there had surrendered. Two Iraqi prisoners, their hands high above their heads, were visible above the sun bank out of view.

We made our getaway as darkness fell. Hours later, as we headed towards a square village, shells began to rain down on the ridge where we had stood during the attack, and red tracer bullets and parachute illuminating flares lit up the mountainside.

Seven Iraqis apparently died in the attack, and nine were injured. One Kurd was killed, and another wounded. The guerrillas were jubilant: soon, they said, the Iraqi base would

be forced to withdraw. Its position was too vulnerable.

Compared with the major set-pieces in the Gulf war, such operations are, of course, minor. Yet their cumulative impact is substantial. With their forces stretched to cover the front with Iran, the Iraqis have been forced to conduct a holding operation in Kurdistan, and seem powerless to stem the Kurdish advance.

So far, the Iraqis have managed to retain a firm grip on the major towns and roads of Kurdistan during the day; at night, however, their control is far more tenuous.

The Kurdish forces operate with apparent impunity within a few kilometres of many towns and with crops growing in the fields and animals grazing on the mountainsides.

Existing villages have been destroyed in the hundreds—not hundreds of thousands. They provide Iran with scouts and vital field intelligence.

Inside the towns, Kurdish clandestine units appear to be proliferating. They provide food and refuge for strike units; are a source of intelligence, weapons and even explosives, and involved in kidnappings and assassinations. Often those involved have Government jobs and, superficially at least, are beyond reproach. They function as a fifth column, and if caught, face immediate execution.

Even Kurdish areas close to the Turkish border, lands designated free zones in 1976, have been reoccupied. These communities now provide solid backing to the guerrillas who receive food, shelter and even military support in the form of armed militias.

The Government, however, has taken a harsh line on public services in these "sensitive" areas. Outside the town, med-

ical clinics have been closed, along with around 800 village schools. Children from the countryside are refused access to education in the main urban centres. The guerrillas are ill-equipped to provide their own teachers as they did in 1974-75.

The Kurds' main success has come on the battlefield. In the mid-seventies, they became involved in a head-on confrontation with the Iraqi Army, and with a force of more than 100,000 men were forced to defend largely static fronts.

The guerrillas now concentrate on guerrilla warfare, and have rejected Iranian attempts to involve them in massed frontal

One consequence is that the Kurds measure their fatal casualties since the Gulf war in the hundreds—not hundreds of thousands. They provide Iran with scouts and vital field intelligence.

Kurdish territorial gains have been far greater than those of the Iranians, who secured three footholds in Iraqi Kurdistan in 1983. But over the next 12 months, this will almost certainly change.

The Kurds will by then have cut a road half way across Kurdistan and military supplies take days to reach remote areas. The Iranians will be on hand to reinforce any Kurdish advances in this sector. The Iraqis will be forced to commit more resources to the north, and the Kurds will attempt to tighten the screw, if possible, to breaking point.

Philippine officers to fight poll fraud

By Samuel Samore in Manila

DISSATISFIED officers in the Philippines' armed forces yesterday launched an unprecedented campaign to ensure a free and fair presidential election on February 7.

The officers, who come from the so-called Reformist Movement within the armed forces, said they would conduct a nationwide information drive against fraud and corruption. They warned that fraud would lead to widespread violence.

Their announcement was made days after presidential candidate Mrs Corazon Aquino pledged to revamp the armed forces and retire "overstaying" generals if she assumed power.

A number of officers in the Reformist Movement, in line for promotion to general, can not move up because President Ferdinand Marcos, who is Commander-in-Chief, has retained generals who are past retirement age.

The Reformist Movement sought the retirement of about 27 generals when it emerged last year during Armed Forces Chief General Febian Ver's trial for the murder of opposition leader Mr Benigno Aquino.

General Ver, who is past retirement age, was acquitted last month.

A walk round our Ryton plant in Coventry will soon give them the answer.

Since 1981, productivity at Ryton has increased by over 50%. How many other car manufacturers in Britain can equal that?

The same is true for quality. Over the last four years the standard of cars built at Ryton has improved to the point where now they regularly top the European quality league for the Peugeot Group.

So our decision to invest and build our new family hatchback, the Peugeot 309, in Britain wasn't just an easy one, it was an obvious one.

BETTER PEOPLE BUILD BETTER CARS.

Improvements like these in productivity and quality don't just happen. It's not simply a case of investing in better machinery and watching better cars roll off the assembly line. Everyone in the



company, at every level, is determined to build more and better cars.

Fine words, but the evidence is there to back them up.

Our increased productivity is a matter of record. Our concern for quality can be seen in the new test track we've built at Ryton.

Every single car is carefully tested before it leaves the plant. No other volume car manufacturer in Britain is prepared to do that.

And finally because we do all work together as a team, production losses caused by industrial action have almost disappeared.

WHAT'S THE FUTURE FOR PEUGEOT CARS IN BRITAIN?

The new Peugeot 309 is just the start. The Peugeot Group, one of Europe's largest car manufacturers, has the plans and the resources to build on the successes of the Ryton plant and make Britain a key base for building a whole range of future Peugeot models.

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Anyone who asks why the new Peugeot is being made in Britain should be sent to Coventry.



AMERICAN NEWS

Volcker under pressure to drop junk bond curbs

BY WILLIAM HALL IN NEW YORK

MR PAUL VOLCKER, chairman of the US Federal Reserve Board, will face fierce pressure to drop his plans to curb the use of so-called junk bonds, high yield securities that are not rated investment grade by the credit rating agencies, at a key meeting of the Federal Reserve Board in Washington today.

The Federal Reserve Board proposal to apply its regulation G margin requirement rules to debt securities issued in takeovers has been roundly criticised by the US Administration and landed Mr Volcker with one of the toughest fights in his career at the top of America's central bank.

The proposals, which are designed to limit the amount of junk bonds which can be issued to 50 per cent of the purchase price in a takeover bid, reflect the Fed's concern about the recent surge in the use of debt by corporate raiders to finance increasingly aggressive bids.

Many leading US companies, politicians and organisations such as the business Round Table have come out in support of the Fed's proposals. They argue that junk bond financing is contributing to the "over-leveraging" of American companies and forcing managers to concentrate on producing short-term profits at the expense of longer-term objectives. Indeed, over half of the comments received by the Fed since it first announced its plans five weeks ago have supported Mr Volcker's stand.

However, the proposals have come under heavy fire from both Wall Street investment banks and the US Administration, which is concerned that the Fed's plans run counter to its belief in the operation of free markets. The Department of Justice says that it has "serious legal and policy reservations" about the Fed's proposed actions and various other US government bodies ranging from the Council of Economic Advisers and the Securities and Exchange Commission to the US Treasury, have also condemned the Fed's plans.

Mr Volcker, who faces opposition from some of his colleagues on the Federal Reserve Board, had hoped that the pro-



Volcker: tough fight

posals would be in place by the end of 1985 but, because of the fierce opposition, the period available for comment was extended.

The Fed plans to take final action at today's board meeting and on Wall Street there is considerable uncertainty about the outcome of the meeting, which will have a major impact on both the future course of take-over activity in the US and on Mr Volcker's credibility in the financial markets. The controversy has bruised his reputation as one of Washington's most skilled political manoeuvrers.

The Fed Board's deliberations will be closely watched by those observers of Washington political scene who have argued that Mr Volcker has stumbled politically by precipitately injecting the Fed into the ideological minefield of government regulation of mergers, reportedly in the face of warnings from some top officials that he could expect strong challenge to his stance from the Reagan Administration.

The Federal Reserve has stressed that its plans are limited in scope and argues that its opponents have overreacted. It plans to apply its margin requirements to one specific class of transaction. It says that it is only going to apply margin requirements where a "shell" company would have substantially no assets other than the margin stock of the company to be acquired.

Stewart Fleming explains why commercial bankers are worried about losing the IMF's protection

World Bank role under Baker plan stirs controversy

THREE MONTHS of debate about how best to integrate the World Bank, the Washington-based Government-owned development bank, into the struggle to cope with the Third World debt problem have convinced commercial bankers and monetary officials that the task they face is not an easy one.

"It is the beginning of a new relationship. We have got to think it through very carefully," remarked a senior US commercial banker. "The banks are going to have to get used to a pretty messy process," said a top official at the World Bank.

Since 1982, the International Monetary Fund has been ringmaster in operating debt strategy, but the World Bank is now to join it on centre stage.

Under the revised strategy for dealing with the debt problem launched by US Treasury Secretary, Mr James Baker, in South Korea last October, commercial banks would lend an additional \$200m to some 15 developing countries between 1986-89 per year. This is not an increase in comparison with current loans outstanding, but an increase which would reverse the decline in bank lending of the past two years.

The World Bank (and other development banks) would be called upon to boost their lending by some \$9m to \$27bn over

the same period and to help developing countries put in place economic policy reforms aimed at boosting long-term growth.

The new initiative got off to slow start and the political momentum behind it seems to have eroded. Monday's top-level meeting of leading commercial banks and IMF and World Bank officials in Washington may have reversed the trend, helped by special

"Individual cases will determine how we work together. It will not be an easy process"

tion that Ecuador might soon become the first country to agree a "Baker Plan" lending package.

But some senior bankers are warning that initial hopes that cooperation guidelines could be agreed between the World Bank, the commercial banks and the IMF under the Baker initiative are having to be set aside. "We are getting to the point where individual cases will determine how we work together," says one top banker.

At the heart of the problem

is the contrasting rules governing the World Bank and IMF approaches, their different time scales and methods of operating and, crucially, the different ways in which they are financed, in particular the dependence of the World Bank on international capital markets.

These distinctions are reflected in demands from some bankers for a bigger proportion of World Bank guarantees to back the lending. The IMF never provided guarantees but has insisted on explicit and legalistic cross default clauses when the World Bank and the commercial banks are lending together.

Some banks big and small are demanding that they are forced to accept rescheduling of loans because a borrower cannot meet the original terms that World Bank loans should suffer the same fate.

It is easy to see why the commercial banks want what a World Bank security blanket wrapped around them even though the cross default clauses are not met. The conditions it attaches to its lending are both more complex and often less onerous than those of the IMF.

The IMF maintains stoutly that it is interested in promoting economic growth by engineering a rapid transforma-

tion of the current accounts of its developing country clients over two or three years. The commercial banks could readily identify with this goal since it promises to improve quickly the prospects of their debts being fully and promptly serviced.

The IMF's relatively short time-scale, rapid decision-making processes and, superficially at least, easily-motivated macroeconomic conditions attached to its loans make the relationship between the IMF and the banks that much easier.

This relationship is now however being fundamentally changed. The World Bank's time-scale for achieving structural changes to promote long-term economic development is not three years but 10 or 15.

The conditions it attaches to its lending are both more complex and often less onerous than those of the IMF.

The pace of decision-making at the World Bank is often much slower, and because it is not usually acting against a crisis background, its influence over the governments it deals with is diminished. The relationship is more long-term and advisory, and the programmes will not quickly necessarily make available financial resources which can

be used quickly to service bank debts.

The concern among commercial banks is thus easy to understand. Peru, they say, is an example of the dilemmas they could face. The country is in effect not fully servicing its debts to commercial banks, but is still making normal payments to the World Bank and is still receiving funds under previously agreed World Bank lending programmes. Is that

"Equal treatment on loan rescheduling would undermine World Bank programmes"

a good or a bad thing?" one commercial banker asks.

Under IMF programmes, a decision by the IMF that a country is out of compliance with a Fund programme halts IMF lending and also triggers an end to commercial bank loans.

To demands for wide-ranging World Bank guarantees for new commercial bank loans, World Bank officials retort that such a change would effectively make them World Bank, not commercial banks loans. As for pressure for "pari passu" (equal)

treatment under which two joint World Bank and commercial bank loans should both be rescheduled if they run into difficulties, the World Bank says that such a rule would undermine its role.

It would raise its cost of funds on the international capital markets and could even jeopardise its access to the markets. Moreover, the more the World Bank becomes a mirror image of private sector lenders, it is in partnership with the less is the incentive of debtor countries to borrow from it and implement the policies it recommends.

Some commercial bankers, recognising the added complexity of getting the World Bank to play a bigger role in the debt problem, argue that issues such as the scope and nature of cross default clauses and the status of the World Bank as a preferred creditor may have to be fudged to create flexibility.

World Bank officials argue, as the IMF has done, that it is the quality of the bank's lending programmes which provide the real guarantee that the bankers' money will be wisely used. But, they concede, the world Bank may have to be more explicit in future about when, how and why it is suspending or delaying disbursements on a particular loan.

IMF set to back \$300m Mexican quake relief loan

BY PETER MONTAGNON, EUROMARKETS CORRESPONDENT

THE International Monetary Fund is set to approve formally a \$300m (£210m) earthquake relief loan for Mexico when its executive board meets on Friday.

Proceeds of the loan would go towards rebuilding the centre of Mexico City and other areas that were devastated by two earthquakes late last summer.

The IMF said at the time of its annual meeting in Seoul last October that it would look favourably on the loan. However, the \$300m credit is not regarded as a key deal for Mexico that will unleash the US pressure following the presidential meeting for it to help Mexico with its \$96bn debt problem.

It is still unclear when Mexico and the IMF will agree on terms of their standby facility. The IMF hopes that the earthquake relief loan may smooth the political ground for the difficult economic policy decisions the US pressure following the presidential meeting for it to help Mexico with its \$96bn debt problem.

For this, Mexico still has to agree on a separate \$90m standby credit for the IMF that will involve stringent economic conditions. Officials

hope that the 1986 budget which provides the zero growth this year will meet IMF objectives in this regard, but Mexico is still under pressure to realign its exchange rate and take steps to ward against capital flight.

The earthquake loan follows hard on the heels of the meeting last weekend between President Ronald Reagan and Miguel de la Madrid of Mexico, but IMF approval of the deal is coincidental and not part of a response to US pressure following the presidential meeting for it to help Mexico with its \$96bn debt problem.

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That's some promise! And on the day you make it, you probably aren't worrying about the negatives. You are going to be better, richer and healthy for the rest of your lives.

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TO SHOW YOU CARE

UK NEWS

Sedgemore threatens more City disclosures

By Kevin Brown

MR BRIAN SEDGEMORE, MP, the leading Labour Party campaigner against alleged City of London fraud, yesterday threatened a series of new disclosures about the activities of Conservative MPs and senior figures at the Lloyd's insurance market.

Mr Sedgemore, who waged a long parliamentary battle last year for an inquiry into the collapse of Johnson Matthey Bankers, said the Government would be "shocked and embarrassed" by the new allegations.

He said City fraud would be one of the major political issues in 1986 because Labour's frontbench spokesmen had "woken up" to the electoral gains to be made.

A campaign against fraud was bound to damage the Conservative Party because "it's their people who are involved," he told a meeting of members of the insurance market.

Mr Sedgemore, a barrister and the MP for the London constituency of Hackney South and Shoreditch, said the institution in which "financial skulduggery" was most likely to survive in 1986 was Lloyd's. Parliament and the public had lost confidence in the ability of Lloyd's to control itself, he said.

The majority of Lloyd's "names" (members) were honest, but the institution lacked credibility and integrity, he claimed. Enormous pressure would be brought to bear in Parliament for Lloyd's to be brought within the ambit of the Financial Services Bill, which is intended to set up a new framework for the City.

Mr Sedgemore said political pressure on the Government over fraud would increase in the coming weeks as a result of an examination of the "grotesque activities" of Conservative MPs' in relation to certain happenings at Lloyd's.

Pressure would also be brought to bear on who, he alleged, figures at Lloyd's "are prepared to discriminate against names who wish to exercise their rights under the laws of England to take legal action against syndicates which they believe have defrauded them."

Mr Sedgemore said: "Neither the nation nor the public can tolerate cynical behaviour which strikes at the root of democratic processes."

He claimed that there were also people at Lloyd's who were likely to be exposed for putting pressure on firms of solicitors not to act for those who wished to take legal action against syndicates which they believed had defrauded them.

The Prime Minister, he said, also had much to fear as the person who appointed Mr Robin Leigh-Pemberton as Governor of the Bank of England in the face of intense criticism. There would be renewed pressure for an inquiry into the Bank of England's shameful incompetence before and after the collapse of JMB.

Mr Sedgemore has made a number of allegations against named individuals in the City in the last few months during the course of proceedings in the House of Commons, where MPs are protected by parliamentary privilege.

• The ruling council of Lloyd's is to consider on Monday the application of Mr Ian Postgate, once a leading insurance underwriter in the market, to return to Lloyd's, John Moore writes.

Mr Postgate has been suspended from the market since last July when he was disciplined.

Stock Exchange plans tighter surveillance

BY JOHN MOORE, CITY CORRESPONDENT

THE STOCK EXCHANGE is strengthening its surveillance department in preparation for the forthcoming structural and regulatory changes in London's financial markets.

It is proposed that the staffing of the surveillance department – responsible for identifying possible abuses or breaches of exchange procedures among member firms – will be increased substantially to detect any irregularities. At present there are 26 inspectors responsible for monitoring brokers and markets and these are expected to be increased to 40.

Exchange officials plan to strengthen the resources allocated to investigations. The inspectorate, which reports on the financial state of the 200-plus firms, is grouped in

to five teams. The number of teams is to be expanded to eight, but the exchange envisages that the individual number of securities groups that each team follows will shrink once the full structural changes are implemented in the exchange in October.

Individual teams will be expected to track the affairs of between 20 and 25 firms instead of the 40 firms which each team at present watches as the number of securities businesses contract in the wake of mergers.

The move is designed to take into account the increasing complexity of the securities businesses now being created. New financial conglomerates are being formed which will carry out both stockbroking and stockjobbing functions.

At present the surveillance department carries out twice-yearly visits of all the market's securities firms in an effort to identify possible trouble. Financial records of the securities firms are scrutinised by an inspector from the department in an effort to identify any possible trouble.

Much of the exchange's disciplinary actions in recent years have so far been taken as a result of findings of the inspectors, rather than from outside complaints.

The stock exchange also expects that the new financial services legislation will allow the Department of Trade and Industry to appoint inspectors from exchange staff as official inspectors, with delegated powers to investigate cases of so-called "insider dealing".

Hint of jobs and pay accord

BY PHILIP BASSETT, LABOUR CORRESPONDENT

THE GOVERNMENT and the Trades Union Congress (TUC) may be in agreement to some extent on the vexed issue of the relationship between pay and demand, according to a confidential paper to be considered by today's meeting of the National Economic Development Council (NEDC).

The document, prepared by Mr John Cassells, director-general of the NEDC's secretariat, also suggests that companies' current capital stock may be insufficient to provide for future employment.

The Government has been insisting for some time on the relevance of pay to jobs, and in a note to the council today Mr Cassells says that

this is no longer denied by any of the council's main groups – government, industry or the unions.

The TUC is, however, likely to object today to the interpretation that its position and the Government's may contain a measure of agreement. Given that the two sides were not discussing the question at all a year ago, any measure of agreement, no matter how small, might be significant.

Mr Nigel Lawson, the Chancellor of the Exchequer, believes that the Government's medium-term financial strategy is a guarantee against a deficiency of normal demand as much as against an excess – so a slower growth in pay rises would

permit higher real demand and more output.

The TUC believes that if wage claims are to become more moderate, there must be a balance between demand and what it sees at stake.

He says: "These views do not seem wholly incompatible, and, given the issue at stake, perhaps merit further discussion."

He suggests, too, that there may be scope for bringing investment planning and the interests of the unemployed, more directly into pay bargaining. He says: "The unemployed do not sit at the bargaining table and so far little recognition of their interests has been shown by those who do."

Bus group managers seek buy-outs

BY ANDREW FISHER, TRANSPORT CORRESPONDENT

MANAGERS of about 20 subsidiaries of National Bus Company (NBC) have said they are keen to launch buy-out schemes quickly in response to the controversial proposal of Mr Nicholas Ridley, Transport Secretary, that NBC be split up for privatisation.

Under government policy each of the 60 NBC subsidiaries will be sold separately, with a preference for management or employee buy-outs.

This contrasts with the previous belief within NBC, its financial advisers, and the City of London, that the company would be sold to the private sector as one group, or in several large units, to raise about £20m. NBC accounts for about a

multiple buy-outs financed through loans. The NBC privatisation comes as the whole bus industry is set for deregulation by October.

Members of the NBC board are known to be disturbed at the method chosen by Mr Ridley for privatisation. One scheme worked on earlier by Barclays Merchant Bank, NBC's adviser, was a management and employee buy-out on the lines of the National Freight Consortium.

Mr Ridley stated clearly in NBC managers last month, however, that while outside bids would be invited, "you already have a head start." He said: "You have the prospect, together with your staff, of running your own company."

The investors are together putting up £2m for the first-round financing for the newspaper, due to be launched in October. Second-round financing of between £15m and £18m in equity and loan stock will begin soon.

Canon will not renew football sponsorship

BY NICK BUNKER

CANON (UK) has decided not to renew its three-year-old sponsorship of the Football League championship at the end of this season.

The British subsidiary of the Japanese camera and electronic equipment company has spent £3.2m on support for the championship since becoming its first commercial sponsor in May 1983.

Canon said yesterday that it had taken the decision to cease the arrangement as part of a shift towards more precise targeting of its promotional activity in Britain.

The long absence of soccer from television screens this season.

It was only in December that the Football League finally reached an agreement with the BBC and independent television companies over terms for broadcast coverage of games.

The Football League said that it was disappointed by Canon's decision, but that in some ways the sponsorship had been "the victim of its own success" by establishing the company's name so rapidly.

Canon – which stressed that "long deliberations" preceded its an-

nouncement – said that crowd violence and the lack of television exposure had played a small part in its decision.

There has been speculation that Canon would move into sponsorship of another major sport, but the company said that this was "not high on its calendar."

With eight months to go before the start of the next soccer season, the Football League is not expected to face much difficulty in gaining another sponsor. There have been approaches from several other organisations, the League said.

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A reminder

Company accounts for the period ending 31 March 1985 should reach the Registrar of Companies by 31 January 1986

This applies to any private company incorporated before 1 October 1984 which has an accounting reference date of 31 March unless it has an extension of time for delivery under section 242 of the Companies Act 1985.

Otherwise the directors will have committed an offence and may be prosecuted.

The Registrar is looking for the support of the accountancy profession in helping directors to meet their obligations.

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Shah to press for binding union deal

By Helen Hague

MR EDDIE SHAH, the newspaper entrepreneur, said yesterday that he was seeking legally binding agreements with unions which were granted recognition rights for his daily newspaper, due to start publishing in March.

The electricians' union, the ETTFU, which agreed an outline no-strike single-miner deal for production areas of the new paper last July, is close to reaching final agreement with Mr Shah's News (UK).

The union has no ideological objection to legally binding deals, provided they are entered into voluntarily. However, the legally binding element could prove a significant stumbling block to a deal between the company and the National Union of Journalists (NUJ).

Officials from the NUJ are due to meet Mr Shah next week to discuss a recognition deal. They will later address NUJ members who have already been recruited to staff the newspaper, entitled Today.

The journalists' union has found Mr Rupert Murdoch's demand for a legally binding deal to prevent the newspaper's new printing plant at Wapping, east London, implausible.

Mr Shah said last night: "There is no point in having agreements unless they are legally binding on both parties. We have written to the NUJ to this effect and the electricians are aware of what we are seeking."

The Shah demand for a legally binding deal differs from that made by Mr Murdoch because of the extensive consultation elements contained in the News (UK) package.

• The quality newspaper planned by former Daily Telegraph journalists yesterday announced its first six financial backers, Raymond Snoddy writes.

Apart from the founding directors, the shareholders in the new company Newspaper Publishing are: Newmarket Venture Capital, TR Technology Investment Trust, Witton Investment Company, Murray Ventures, Charterhouse Development and Franklin Capital.

The investors are together putting up £2m for the first-round financing for the newspaper, due to be launched in October. Second-round financing of between £15m and £18m in equity and loan stock will begin soon.

There has been speculation that Canon would move into sponsorship of another major sport, but the company said that this was "not high on its calendar."

With eight months to go before the start of the next soccer season, the Football League is not expected to face much difficulty in gaining another sponsor. There have been approaches from several other organisations, the League said.

Imported commercial vehicles achieve record annual sales

BY KENNETH GOODING, MOTOR INDUSTRY CORRESPONDENT

A RECORD number of imported commercial vehicles were sold in the UK last year, with 160,000 for the first time.

Two companies in particular contributed to the trend. Daimler-Benz (D-B), the Mercedes group of West Germany, increased its penetration of the heavy truck sector to the extent that it overtook Bedford, General Motors' British subsidiary, to win third place in the manufacturer league table after Ford and Leyland, the state-owned BL offshoot.

D-B also made strong progress with its medium and heavy vans. But Renault of France made the most dramatic inroads in that sector, brushing past Volkswagen, which had been the leading importer for many years.

Ford's sales advance was only 5.5 per cent to 105,112, so its sector share slipped a fraction while Leyland improved from 14.8 to 13.9 per cent. D-B in third place moved up from 8.6 to 11.45 per cent of the heavy truck sector.

Registrations of medium and heavy vans rose by 4.8 per cent from the 1984 level to 121,202 last year and the importers' share was pushed back slightly, from 42.8 to 42.7 per cent, in spite of Renault's substantial increased penetration.

Registrations of Renault's Trafic and Master vans jumped by an extra 20 per cent to 3,945 vehicles to 10,231, while D-B recorded a 14 per cent increase to 6,059 vans.

Sector leader Ford lost ground because it is well known that its best-selling Transit van is shortly to be replaced.

BL's Freight Rover subsidiary continued to make headway and sales of its Sherpa vans increased by more than 15 per cent.

Light van sales rose by 11.26 per cent to 93,865 and the importers' share was up from 27.39 to 27.77 per cent. Light four-wheel-drive commercial vehicles showed a 6.2 per cent increase to 13,565 of which imports accounted for 50 per cent against 47 per cent in 1984.

Five market-makers leave Bisgood group

BY JOHN MOORE, CITY CORRESPONDENT

FIVE market-makers at County Bisgood, the stockjobbing group that is merging with National Westminster Bank, are leaving to join Phillips & Drew, the stockbroker, in the latest series of personnel upheavals in London's financial community.

Those who are leaving are the first important defections since County Bisgood (formerly known as Bisgood Bishop) forged its link with National Westminster nearly two years ago.

The five who are leaving are led by Mr Richard Hine, one of 13 executive directors of County Bisgood. The others who are moving to Phillips & Drew are Mr John Lynch, Mr Timothy Grace, Mr David Marshall, and Mr Colin Grimwood. Mr Hine and Mr Lynch are to become directors of Phillips & Drew (Trading), while the others are to be senior market-makers.

Mr Ed Puxley, chairman of County Bisgood, said yesterday: "It is most upsetting that a director has been involved in the departure." National Westminster's link with Bisgood Bishop valued the entire jobbing company at £18.84m, when

it took its 29.9 per cent stake in

The directors of the firm would each have received a share of the proceeds from National Westminster in its tie-up. Mr Puxley said yesterday that Mr Hine would suffer the usual "equity penalty" following his departure in which he would not receive his full entitlement from the National Westminster deal.

Mr Bryce Cottrell, chairman of Phillips & Drew, which is merging with the Union Bank of Switzerland, said yesterday that the five would form the nucleus of its plans for developing market-making in domestic equities in the UK, with its interests in Edwards, Jones & Wilcox, which it acquired in September last year. Phillips & Drew has recruited a market-maker from stockjobber Pinchin Denby in an effort to develop its market-making activities.

Mr Cottrell declined to detail the financial remuneration that the five would be receiving, but said that the packages offered were "competitive".

Mr Cottrell agreed to the intervention of Acas, the conciliation service, in the 11-month-old pay dispute in England and Wales.

After meeting both sides Acas officials will decide whether there is scope for full conciliation.

□ TEACHING unions agreed to the intervention of Acas, the conciliation service, in the 11-month-old pay dispute in England and Wales.

After meeting both sides Acas officials will decide whether there is scope for full conciliation.

On many occasions one could see him as balancing Denning's creativity by a meticulous observation of the letter of the law and of precedent, although at least in one case since Denning's departure, in *Leigh and Silcock Ltd v At*

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To the Holders of

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Floating Rate Notes due 1988

NOTICE IS HEREBY GIVEN that, pursuant to the provisions of Paragraph 4(b) of the above-described Notes and Section 6 of the Fiscal and Paying Agency Agreement dated as of April 23, 1982 between Societe Nationale des Chemins de Fer Francais and Morgan Guaranty Trust Company of New York, Fiscal and Paying Agent, Societe Nationale des Chemins de Fer Francais intends to redeem on January 30, 1986 all of its Floating Rate Notes due 1988 at a redemption price of 100% of the principal amount thereof.

Payment will be made in U.S. dollars on and after January 30, 1986 upon presentation and surrender of the above Notes with coupons due April, 1986 and subsequent coupons attached, subject to applicable law and regulation, either (a) at the office of the Fiscal and Paying Agent in New York, (b) at the agents office of Morgan Guaranty Trust Company of New York, London, Brussels, Frankfurt am Main and Paris or (c) at the main office of Swiss Bank Corporation in Zürich, the main office of Morgan Bank Nederland N.V. in Amsterdam and the main office of Kredietbank S.A. Luxembourgeoise in Luxembourg. Payments at the office of any paying agent outside of the United States will be made by check drawn on, a transfer to a United States dollar account with a bank in the Borough of Manhattan, City and State of New York. Any payments made by transfer to an account maintained by the payee with a bank in the United States may be subject to reporting to the United States Internal Revenue Service (IRS) and to backup withholding at a rate of 20%. If a note is not recognized as exempt from fail to report and pay penalties against such an executed IRS Form W-8, certifying under penalties of perjury that the payee is not a United States person or an executed IRS Form W-9, certifying under penalties of perjury the payee's taxpayer identification number (employer identification number or social security number, as appropriate). Those holders who are required to provide their correct taxpayer identification number on Internal Revenue Service Form W-9 and who fail to do so may also be subject to a penalty of \$50. Please therefore provide the appropriate certification when presenting your securities for payment.

Notes surrendered for payment should have attached all unmatured coupons appertaining thereto. Coupons due January, 1986 should be detached and collected in the usual manner.

On and after January 30, 1986 interest shall cease to accrue on the above Notes and all conditions precedent to such redemption shall have occurred.

**SOCIETE NATIONALE DES CHEMINS
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Dated: December 23, 1985

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Allied Dunbar & Co.	11 1/2%	Hambros Bank	11 1/2%
Allied Irish Bank	11 1/2%	Heritatis & Gen. Trust	11 1/2%
American Express Bk.	11 1/2%	Hill Samuel	11 1/2%
Amro Bank	11 1/2%	H. Co. & Co.	11 1/2%
Henry Ansbacher Associates Cap. Corp.	11 1/2%	Hongkong & Shanghai	11 1/2%
Banco de Bilbao	11 1/2%	Johnson Matthey Eka	11 1/2%
Bank of Liverpool	11 1/2%	Knowles & Co. Ltd.	11 1/2%
Bank Leumi (UK)	11 1/2%	Lloyd's Bank	11 1/2%
Bank of Ireland	11 1/2%	Edward Mansons & Co.	11 1/2%
BCCI	11 1/2%	Midland Bank	11 1/2%
Bank of Cyprus	11 1/2%	Morgan Grenfell	11 1/2%
Bank of India	11 1/2%	Mount Credit Corp. Ltd.	11 1/2%
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Brown Shipley	11 1/2%	Norwich Gen. Trust	11 1/2%
CL Bank Nederland	11 1/2%	People's Trust	11 1/2%
Canada Permanent	11 1/2%	PFI Finans. Int'l. (UK)	11 1/2%
Canada Trust	11 1/2%	Provincial Trust Ltd.	11 1/2%
Carlyle Hedges	11 1/2%	Raphael & Sons	11 1/2%
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Royal Trust Co. Canada	11 1/2%	Standard Chartered	11 1/2%
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C. E. Contes & Co. Ltd.	11 1/2%	Westpac Banking Corp.	11 1/2%
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WEAK OIL PRICES OVERHANG BUDGET STRATEGY TALKS

Ministers assess scope for tax cuts

BY PHILIP STEPHENS, ECONOMICS CORRESPONDENT

MR NIGEL LAWSON, Chancellor of the Exchequer, and other Treasury ministers are assessing the impact of falling oil prices on the scope for tax cuts in his March budget.

In two days of talks this weekend the ministers will also review next year's public borrowing plans and how the remaining room for tax cuts should be allocated.

Treasury officials insist that no firm decisions will be taken at the meeting but with the budget expected in early March the talks will provide the framework for the more detailed planning over the next two months.

Other measures likely to be discussed include whether to abolish the remaining stamp duty on share transactions. The duty was reduced from 2 to 1 per cent in the 1984 budget. A recent Bank of England report underlined the beneficial impact on private share ownership.

The backdrop to the meeting is not the most auspicious. Concern over a further weakening in oil prices has pushed sterling down to record lows against the D-Mark and provoked concern in financial markets about a possible rise in interest rates.

The drop in expected revenues from the North Sea has also significantly reduced the scope for possible tax cuts.

The Government's medium-term strategy envisaged tax cuts of £3.5bn this year, but many City of London analysts believe that that figure has already been reduced to less than £2bn. Ministers will have to consider whether the envisaged borrowing target of £7.5bn for 1986-87 should be reduced to take account of its increased privatisation programme.

Mr Lawson's advisers appear to believe that there is a strong case for lower borrowing to offset an extra £2.5bn of asset sales but there is also a countervailing argument that

borrowing might be increased to take account of lower oil revenues. Officials in Whitehall insist that no decision has yet been made on whether the available cash should be used to raise the thresholds at which income tax becomes payable, or to cut the basic rate from the present 30 per cent.

• The Treasury is planning to publish its public spending White Paper (policy document) on January 15. It will show the same overall spending limits as shown in last November's Autumn Statement, but will include for the first time detailed limits for departments' running costs.

Tobacco curbs pledged

By Kevin Brown

A FUTURE Labour government would ban sponsorship of sporting events by tobacco companies and all advertising of tobacco products except at the point of sale, Mr Frank Dobson, the opposition spokesman on health, said yesterday.

Mr Dobson, speaking at a conference on the politics of tobacco organised by the British Medical Association, said the Government was inhibited by commercial pressures from acting against an epidemic which was killing 100,000 people a year.

He said it was inconsistent of the Sports Council and the governing bodies of individual sports to link sporting exercise and health in pursuit of public subsidies while also seeking sponsorship by tobacco companies.

"As there seems little prospect of them acting responsibly and consistently, the next Labour government will prohibit the sponsorship of sporting events by tobacco companies," he said.

Mr Dobson said that in the meantime the BBC should stop televising sporting events sponsored by tobacco companies. He said it was hypocritical for the corporation to oppose advertising on BBC television while providing the cigarette companies with hundreds of hours of free publicity in the guise of smoking and cricket coverage.

The MP said a ban on tobacco advertising except at the point of sale was essential to prevent advertisers from appealing to young people.

"Tobacco has no future unless it can capture new, young smokers. After all, it is killing 100,000 of its existing market each year. It has to recruit young people just to stand still. Whatever the tobacco promoters may say in public, their advertising is aimed at getting new smokers," he said.

Mr Dobson said the Government should strengthen the health warning on tobacco products.

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UK leads opposition to draft directive on parental leave

BY JOHN LLOYD, INDUSTRIAL EDITOR

THE ISSUE of statutory leave for parental and family reasons is, of all the draft directives now being prepared in the European Commission, the one most likely to come up for decision during the next six months of the Dutch presidency of the EEC.

Last month, Mr Kenneth Clarke, the UK Paymaster General, left his fellow EEC employment ministers in no doubt that the UK Government was strongly against any such provision. He and his colleagues might have to repeat their opposition in the months ahead.

The draft directive has now completed all of its drafting and technical stages and awaits only political decisions.

It grants leave to all parents, to be taken before the child reaches the age of two. It stipulates a minimum three-month leave period per employee per child, thus giving a couple six months in all (they are not allowed to take simultaneous leave). It lays down that where allowances are paid they should be made from public funds.

Some of the leave provisions in the main EEC member states, including that of the present EEC presidency holder, are shown in the table. In all cases, collective agreements can supplement the statutory rights. In the UK, where no rights exist in law, employees are often in practice able to take substantial leave for parental or other family reasons either by a collective agreement or by managerial discretion.

The variation is substantial – although none has expressed them so forcefully – the directive would force the UK, Ireland and the Netherlands to change current practice substantially.

TIME OFF FOR PARENTS IN EEC

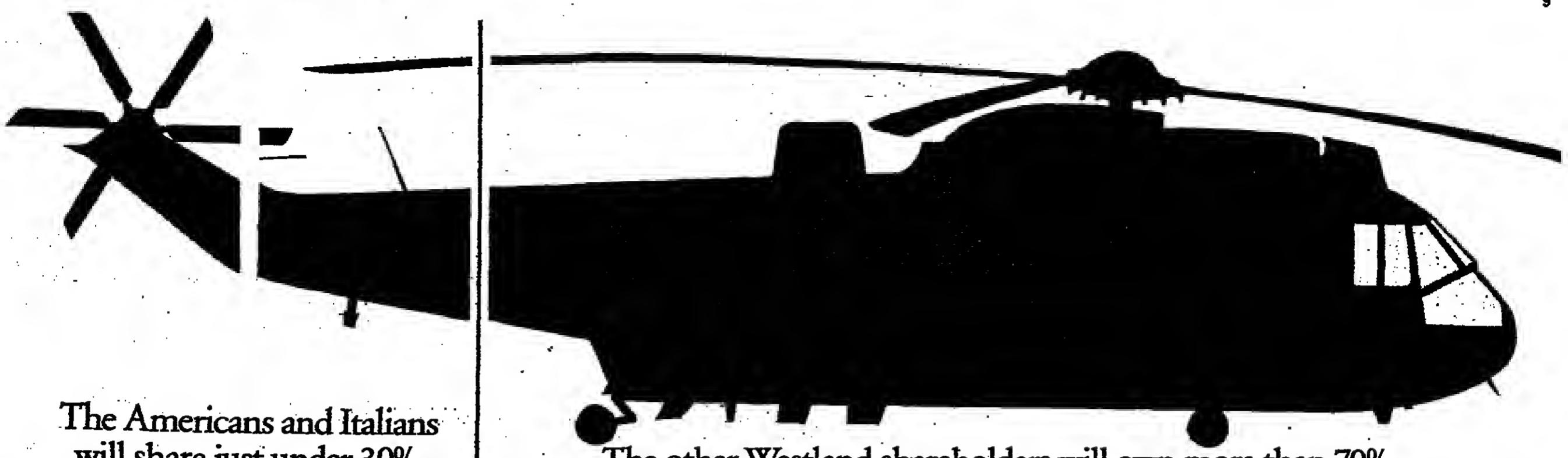
France: Leave guaranteed by law. It can be taken either as unpaid leave or half-time leave up to a maximum of two years. It applies to public and private sectors but companies with fewer than 100 employees can refuse on certain conditions. Time off for family reasons is guaranteed after three months' service.

Each worker is entitled to two days off for the death of a spouse or child; one day off for death of parent or sibling; one day off for wedding of son/daughter; four days off for own wedding.

West Germany: No statutory rights in private sector, but public sector allows three years of unpaid leave. Article 616 of the Civil Code allows workers leave for "insubstantial periods of time" for family reasons. A man or woman can take up to five days off a year

with sick pay to look after an ill child.

Italy: Parental leave guaranteed under a law of December



The Americans and Italians will share just under 30%.

The other Westland shareholders will own more than 70%.

So who'll be at the controls?

The short answer is, we will.

If you vote in favour of the new proposals from Sikorsky (a division of UTC) and Fiat, as your Board urges you to do, Westland will remain an independent British company.

Free to develop, design and build helicopters in Britain.

Sikorsky and Fiat will become valued and trusted partners, but only minority shareholders.

Together they'll own no more than 29.9%, and this could drop to 21%.

Thriving, independent companies themselves, they are backing Westland's long-term prosperity.

We are convinced that their proposals, though similar in financial terms to those of the European consortium, are better for our company, our shareholders and our workforce.

In view of the vast amount of public comment, we would like to give you our main reasons once again.

A tried and tested partnership.

As you probably know we have, in fact, been working successfully with Sikorsky for a long while.

Over the last thirty-eight years we have built the Dragonfly, Whirlwind, Wessex and Sea King helicopters under licence from them.

Often, as they have been kind enough to admit, improving them.

(We're proud to say, our version of the Sea King outsells theirs in export markets.)

We get on well together, we know each other and we build very good machines together.

An association with Fiat is a further important benefit in our view.

They are a large, profitable and international group with interests in aviation, space and materials technology.

Furthermore, many of their interests dovetail with ours.

This will give us opportunities to strengthen our technological capabilities and open up new markets.

Moreover, Westland and Fiat are two of Europe's leading helicopter transmission manufacturers.

By contrast, the proposals of the European group aren't nearly so appealing.

A marriage of inconvenience.

Frankly, the consortium seems to be an ad hoc grouping of companies, some of which are state-owned and fierce competitors of ourselves and each other.

The truth is, there's a glut of helicopters in Europe, with problems of overmanning and overcapacity.

We believe that instead of making complete helicopters, Westland would steadily be reduced to producing only parts for a European machine.

Our skills, our know-how, our self esteem would all be degraded whereas with Sikorsky and Fiat they'll be enhanced.

With their help, we'll form a formidable new competitor for everyone else in the market.

But would the Government discriminate against Westland if we join forces with Sikorsky and Fiat?

Our Chairman wrote and asked the Prime Minister this very question.

The Prime Minister's assurances.

We sent the full text of both letters to our shareholders on 6th January and yesterday published them in an advertisement.

One of the key points she makes is this:

"As long as Westland continues to carry on business in the UK, the Government will of course continue to regard it as a British and therefore a European company, and will support it in pursuing British interests in Europe."

Why shareholders can't vote on both proposals.

We have sent you full details of both sets of proposals together with the Board's recommendation.

Some shareholders, however, have asked why they can't vote on the two and make a decision as they do in a competitive takeover.

There are two reasons why not.

First, this is not a takeover. It's a capital reconstruction for a company in extreme financial difficulty.

The Board's overriding duty is to assess, with its wide knowledge of the commercial background, what is best for Westland and to make a clear recommendation to shareholders.

Second, because of the urgency of the situation, we need a quick and decisive solution. We simply can't risk falling between two stools.

Apart from anything else, the law insists that either proposal gets a three-quarters majority. If both alternatives are put to shareholders, there's a real danger that neither will get that majority.

Our urgent priority must be to establish a stable framework within which Westland can operate.

Westland's phone-in.

We hope we have explained why your Board is strongly recommending you to vote without delay in favour of the Sikorsky and Fiat proposals.

If you have any difficulty in completing and/or returning your proxy card in time, we invite you to phone us between 10am and 8pm daily.

The number is 01-583 1398.

Every single vote is crucial for Westland's future and delay could seriously damage us.

Remember, to be valid, your proxy must be received this week.

FOR USE BY WESTLAND SHAREHOLDERS ONLY

Please return the coupon to The Registrar, Westland plc, National Westminster Bank PLC, Registrar's Department, P.O. Box 82, 37 Broad Street, Bristol BS9 7YA.

Form of Proxy for use at the Extraordinary General Meeting of Westland plc ("the Company") to be held on Tuesday, 14th January, 1986.

I/We the undersigned being (s) member(s) of the Company, hereby appoint the Chairman of the Meeting or (see note 1).

as my/our proxy to vote for me/us on my/our behalf at the Extraordinary General Meeting of the Company convened for 10.30 a.m. on 14th January, 1986 and at any adjournment thereof.

I/We direct that my/our vote(s) be cast on the resolutions referred to in the Notice of Meeting as indicated by an X as shown below and on any other resolution in such manner as my/our proxy thinks fit.

Date _____

Signature(s) _____

Name(s) in full _____

Address(es) _____

RESOLUTIONS:	FOR	AGAINST
Number 1: Ordinary Resolution		
Number 2: Special Resolution		
Number 3: Special Resolution		

Note: If you wish to appoint any other person as your proxy, who need not be a Member of the Company, please draw through the Chairman of the Meeting, and enter the name and address of your proxy.

2. Please indicate how you wish the proxy to vote in respect of the resolutions. If no indication is given, the proxy will have discretion as to whether and how to vote.

3. This proxy form is often completed with the power of attorney or other mandate. If any such vehicle is to be used, it must be specifically stated on the proxy form held with the Company's Registrar, National Westminster Bank PLC, Registrar's Department, P.O. Box 82, 37 Broad Street, Bristol BS9 7YA, and less than 48 hours before the time fixed for the meeting or adjourned meeting.

4. In the case of a committee, this proxy form must be countersigned under its common seal or signed on its behalf by a duly authorised officer.

5. If a proxy is appointed for a limited period, the name of the proxy and the date when he or she ceases to act as proxy must be entered on the proxy form.

6. Any alteration to this proxy form should be initialed.

WESTLAND

THE MANAGEMENT PAGE

EDITED BY CHRISTOPHER LORENZ

FOR Johnson Matthey survival is no longer the issue. Faster than ever seemed possible, it is recovering from the impact of the disaster which has engulfed its former subsidiary Johnson Matthey Bankers.

While JMB, which was saved from collapse in November 1984 in a rescue takeover by the Bank of England, remains at the centre of one of the biggest political and financial storms the City of London has ever known, Johnson Matthey plc has not only managed to pull itself out of financial danger but has also been largely untouched by the blinding row over allegations of fraud at its former subsidiary.

The pace of recovery has surprised almost everyone at the precious metals and chemicals group including Eugene Anderson, the chief executive, who says: "We are going along faster than any we expected."

Johnson Matthey has reached a crucial point in its recovery—it has secured its immediate future by cutting the debts which once threatened to overwhelm it. It has struck a three-year financing deal with its bankers; and it is now looking hard at raising the profitability of its businesses.

The recovery raises two questions—first, how has this 180-year-old group managed to move so quickly since JMB was taken over by the Bank of England last October? And second, can it maintain the momentum now that its survival is no longer at stake?

Johnson Matthey suffered a profound shock when it lost JMB. The loss cut shareholders' funds from £33m to £205m and left up debt to £271m. It borrowed cash and the rest in borrowed precious metal. On top of that it had weaknesses not just at JMB but in the group as a whole, notably the inadequacy of central financial controls on the 70 or so companies in Johnson Matthey.

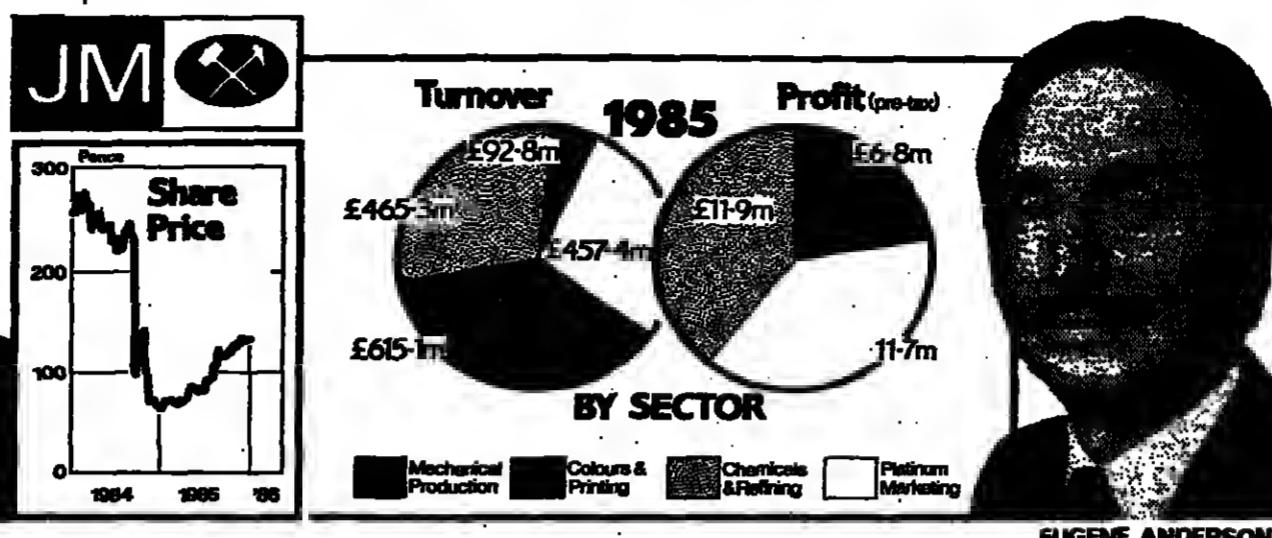
Rapid boardroom changes followed the debacle—Harry Hewitt and three other senior directors resigned and Neil Clarke, chief executive of Johnson Matthey's biggest shareholder, the Charter Consolidated industrial group, stepped in as non-executive chairman. Anderson, aged 46, arrived in May from the US, where he had been president of Celanese International Corporation.

But the new men did not entirely dominate the board—Joe Stevenson, who joined Johnson Matthey nearly 30 years ago and is now operations director, played a particularly influential role in the months before Anderson's arrival. Gordon Thorburn, the



NEIL CLARKE

The revitalisation of Johnson Matthey



EUGENE ANDERSON

New team administers painful surgery

By Stefan Wagstyl

new finance director, also came from within the company.

The company was in no state to consider trying to rescue JMB itself. The bank one of the five members of London's gold fixing ring had built up a large book of bad debts by a hasty expansion into commercial lending. The potential losses of £25m were too large for the parent group to cover, especially after it had lost the best part of £100m on a disastrous US venture into making finished jewellers.

Even so, the terms of the rescue put together by the Bank of England, commercial banks and Charter Consolidated left Johnson Matthey with very heavy debts. "The balance sheet is hopelessly overstretched," one City analyst in November 1984, forecasting a £100m fund-raising in 1985.

But this did not prove necessary. Johnson Matthey set to work on debt reduction at such a pace that borrowings of money and precious metal fell from their \$471m peak in October 1984 to \$227m by September 1985, reducing the debt/equity ratio from 138 per cent to 75 per cent—"almost respectable," in Anderson's words.

By the summer, City analysts were saying that Johnson Matthey had got off lightly when it did; quite apart from its financial recovery, the group avoided most of the taint of scandal which

surrounded its former subsidiary. It began to win back the confidence of its workforce, customers and banks, though as Stevenson says: "It would be better if JMB weren't always in the headlines."

Johnson Matthey was able to sign a three-year financing deal with its 34 banks in America, replacing the tough interim arrangements that had been hurriedly put in place when JMB collapsed. In November, Anderson said that the company was ahead of schedule on repaying this three-year loan.

Johnson Matthey raised some £12m from the sale of two businesses. But the bulk of the £250m reduction in money and metal debts has been squeezed out of the group by cutting working capital, particularly in the precious metal refining operations.

Anderson says: "None of us really appreciated the magnitude of the veritable gold mine that existed here." The irony was that the weak financial systems which permitted JMB to run out of control had also allowed excess fat to accumulate elsewhere in the group, he says.

He was amazed to find that divisional managers had pre-arranged metal stocks on their books on which no return was expected. "They had so-called free metal, free assets."

These remarks go to the heart of the problem at the old Johnson Matthey. Stevenson is the first to admit that financial controls at the centre were too weak. "We were like a Poldi mint with a hole in the middle."

Information flowed into the "hole" but it was mostly not presented in a way which allowed central management to act properly. Too much information was simply filed away and central managers were not instructed to respond to it properly. Equally, group management was inefficiently structured with two head offices—one in Hatton Garden, centre of London's jewellery trade, and the other at Southgate, in North London. Senior managers used to spend hours travelling between the two.

Stevenson says that this system worked well enough with most group companies which were in Johnson Matthey's traditional business areas—refining precious metals and turning them into anything from gold rope for jewellery, to auto-catalysts for cleaning up vehicle exhaust emission. But the system's inadequacy was exposed by two big new expansions—the US move into making and marketing finished jewellers and the billion bank's diversification into commercial lending.

In late 1984, immediately after the JMB crisis broke, Johnson Matthey called in management consultants from Coopers and Lybrand to review its financial systems. As a result five financial jobs, all one tier below the finance director,

were redefined to give them power of financial control. For the first time, Johnson Matthey appointed a metal controller with the right to ask operating companies to account for metal stocks.

At the same time, Johnson Matthey ordered the closure of the Southgate office, partly to improve the flow of management information and partly to cut costs. Clarke, the new chairman, says Southgate has the "swollen belly of Johnson Matthey."

Johnson Matthey believes that its new systems will alert its board to problems in time. Stevenson says that managers in operating companies have responded very well. "I have not lost a senior executive over this."

The speed with which the group has acted was an obvious response to the JMB earlier. Why did no one react earlier, particularly after the US jewellery company went wrong in 1983? Clarke points to the group's image—looking outward, to the market, to the precious metals trade.

Johnson Matthey was too insular, he says. Too few senior executives came from outside. Those promoted from within did not reach the top tiers until late in their working lives. "This does not produce the right willingness to question and challenge," says Clarke.

It will take time too before it is clear whether the shock of losing JMB has been enough to change attitudes permanently. But Clarke says that "management down the line has reacted extremely positively." The extent of the transformation will be tested in the second and third quarters of this year.

Anderson admits that profits have suffered while the group has concentrated on debt-reduction. In November the group reported a very modest increase in interim pre-tax profits for the period to the end of September of £10.5m against £9.4m. A reduction in interest payments compensated for a drop in operating profit.

Anderson says that the group's rate of return on equity after tax and interest was 6 per cent in 1984-85. His target is 15 per cent.

As a first step, the company is cutting jobs rapidly to improve productivity. The workforce has been cut from 9,270 at the end of March to about 8,200 with more reductions to come from redundancies, closures and disposals.

There is also a tight central control on new capital expenditure. Anderson says that there is an excess of land and buildings and equipment in Johnson Matthey. New projects are now judged by their contribution to the group as a whole—not to an individual operating company as was too often

the case in the past, he says.

But a cost squeeze can only go so far in improving profitability. What about the underlying quality of Johnson Matthey's businesses?

The group plans to concentrate on its skills in marketing, refining and handling precious metals; it also believes it has a strong business in most parts of its colours and printing division, particularly in companies supplying specialist materials (including liquid gold) for china and glass decoration. It has already sold peripheral companies—for example Malthus Instruments.

The heart of Johnson Matthey is platinum. The platinum marketing division contributed operating profits of £11.7m in a year of a group total of £20.4m. In 1985, up to March, it made £2.4m, down-rated compared largely by Matthey Rustenburg Refinery, which processes metal from the biggest of South Africa's three platinum mining companies.

Johnson Matthey also sets great store by its entrepreneurial business, an acknowledged market leader in a field which could grow dramatically as more and more countries tighten the legal restrictions on vehicle exhaust gases. This is part of the chemicals and refining division which contributed operating profits of £1.1m in a year of a group total of £20.4m in the year to March.

But the same division also has serious weaknesses. The platinum refining activities, which concentrate on recovering scrap platinum, were held back by a loss-making refinery at West Deptford in the US. The group is expected to decide by March on the future of this troubled plant.

To many businesses in the mechanical production division, which only broke even last year on a turnover of £615m, are also performing poorly. Johnson Matthey has been about rationalising and restructuring, particularly in the UK. But there are doubts in the City about whether this division has a future.

Too many businesses in the Group clothing and the Furniture division, both of whom combined both methods;

(2) whether an in-house production unit is justifiable, better or cheaper, describes the unsuccessful experience of Rentokil (pest control), whose video production unit has operated since 1977.

These abstracts are condensed from the abstracting journals published by Amherst Management Publications. Licensed copies of the original articles may be obtained at a cost of £4 each (including VAT) and post paid with order from Amherst PO Box 22, Wembley HA9 5DN.

Management abstracts

Should collective bargaining and labour relations be less adversarial? N. E. Bowie plus D. R. Koehn in *Journal of Business Ethics* (Netherlands), August 85 (12 pages).

Argues that the "poker game analogy" is not suited to negotiations because it undermines trust, ignores the need for co-operation and fails to take fairness and human dignity into account. Suggests that collective bargaining should resemble the way decisions are reached in the ideal family. A linked article provides a commentary which is supportive but points out some "incoherencies" in the ideal-family model.

F. McLean plus others in *The Chartered Accountant in Australia*, June 85 (91 pages).

Makes the claim that there are no statutory or legal reasons for believing that auditors can escape responsibility for failure to detect fraud.

R. McLean plus others in *The Chartered Accountant in Australia*, June 85 (91 pages).

Make the claim that there are no statutory or legal reasons for believing that auditors can escape responsibility for failure to detect fraud.

J. Curnow & A. Currow in *A Campaign* (UK), September 13 1985, (2 pages).

Focuses on two subjects: (1) whether it is better to use a top manager from the company or a well-known face to present Corporate Video.

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THE ARTS

Television/Christopher Dunkley

Rock rolls back reality in the global village

In 1985 television proved, yet again to be involved in the news in three different ways. First it continued to convey news of world events as it had for 30 years; television provided the public with its primary supply of information on air disasters (a record number), royal tours (ditto, surely) and the celebration of the 40th anniversary of VE Day.

But frequently television also proved to be newsworthy itself, as so often in the past decade or so. There was the furious and serious row over *Real Lives* with the then Home Secretary, leaning on the BBC Governors to persuade them to suppress a programme about extremists in Northern Ireland, the governors caving in, and then such an outcry that they were forced to cave out again.

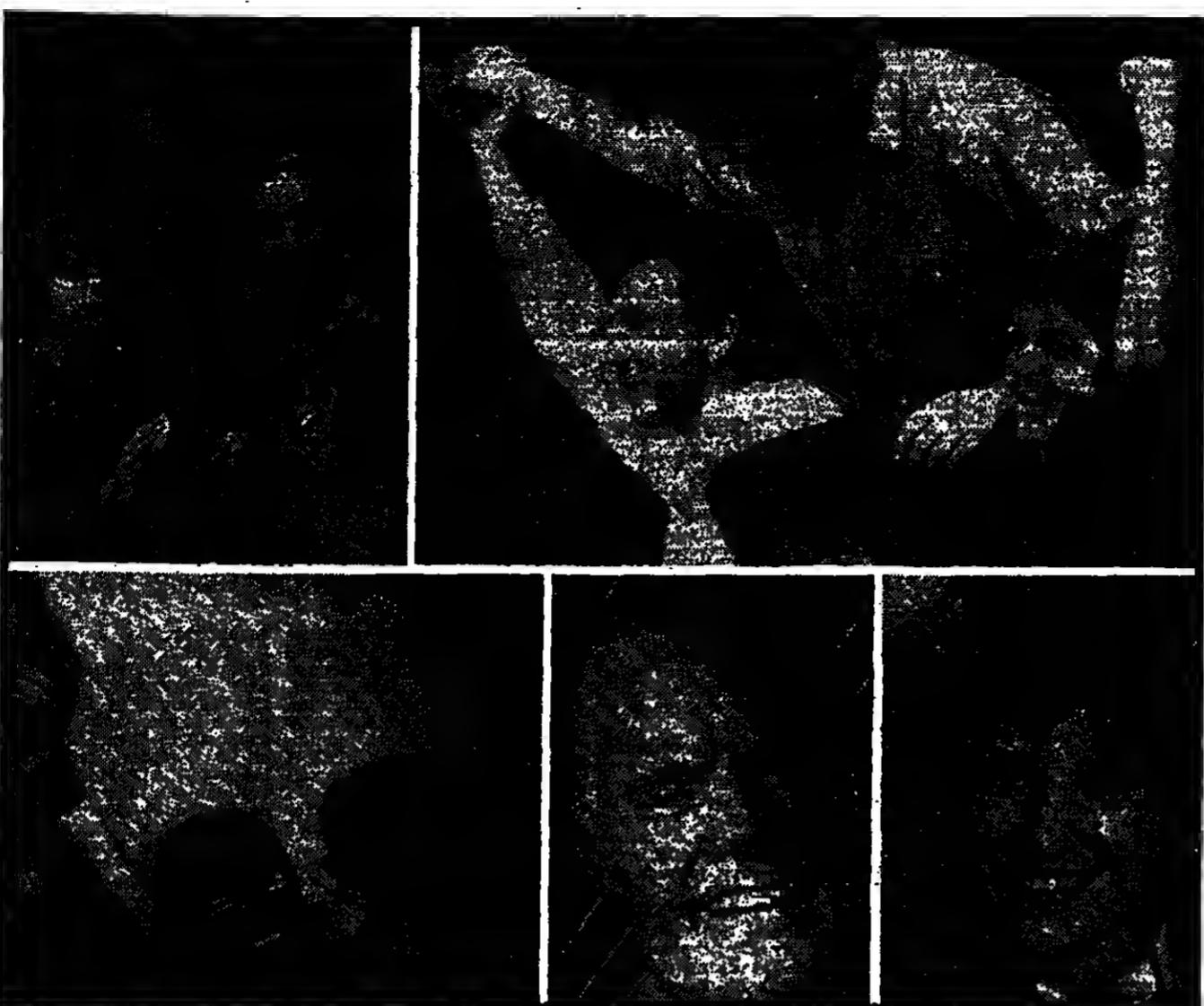
There was the raising of the BBC licence fee from £26 to £38 and the setting up of the Peacock Committee to investigate alternative BBC financing. And there was the *Dallas* nonsense between BBC and ITV which resulted in the resignation of Thames managing director Bryan Cowgill (though no re-appearance of the series for *Dallas* fans—not in 1985, anyway).

But perhaps most significant of all was the increasing number of occasions when television was not simply the medium for conveying news of a remote happening, now the actual subject of a news story itself, but an integral and inseparable part of some newsworthy event. The most famous example of the year was the *Live Aid* concert in July. Whether that really attracted the first global audience of more than a billion who knows; head counts in some countries is not accurate enough to be sure. What does seem clear is that the figure went higher than the previous record of 750m which was credited to the televising of the marriage of Prince Charles and Lady Diana in July 1981.

Other examples of events where television's own presence was significant were the appalling Heysel Stadium tragedy in May, the Reagan/Gorbachev summit talks in November, and the televising of the House of Lords which began in January. Sadly and misguidedly the House of Commons voted in November by a narrow majority yet again to reject even the experimental televising of its own activities. Thanks to its old-fashioned and, unfortunately, often ignorant attitude towards television the House of Commons is slowly bringing about the marginalisation of its own affairs. Some people may dislike the fact but television is central to our public (and often private) lives, and the British Parliament should be central too.

On the technological front 1985 was yet another year when there was more talk than action. Spring saw the much heralded Direct Broadcast-by-Satellite (DBS) revolution being postponed and perhaps cancelled for ever. The Club of 21, formed at the Government's behest by the BBC, ITV and selected entrepreneurs, told the Government that the requirement to buy British hardware made the proposal an impossibly expensive risk.

Once that pipe-dream had evaporated ITV and BBC began to draw plans for a "super channel" to beam the best of the programmes from both organisations across Europe via conventional low-power satellites. The main thrust behind this scheme was Rupert Murdoch's success with Sky Channel, sent from London via satellite to millions of Europeans from Helsinki to Paris. The BBC and ITV were afraid that if Murdoch was left alone in the



An impressive year for drama serials included BBC's "Oliver Twist" (top left) and Channel 4's "The Price" (bottom left) while C4's "Max Headroom" (bottom centre) was the most original single drama. BBC's soapie "EastEnders" (bottom right) topped the ratings, but Bob Geldof's "Live Aid" concert (top right) appealed to the biggest TV audience ever

field for long he would establish an unmissable dominance. The Government, seeing its brainchild "the entertainment revolution" failing on all fronts, quietly legalised SMATV ("Satellite Multiple Master Antennae Television") and introduced a licence fee of only £10 for satellite dishes. By year's end BT and BSkyB are offering package deals to supply viewers with a dish and converter so that they could pick up satellite channels dedicated to music, sport, children's programmes, and the true selling point—new movies. The cost was £768 a year which made the BBC licence fee look astoundingly cheap.

With so little technical change television for the overwhelming majority of viewers still meant ITV, BBC1, BBC2 and Channel 4, which in a typical week would split the audience 47.35:11.7 (if ever there were such a thing as a typical week). Video recorders had been installed in 35 per cent of homes by the end of 1985, yet this made precious little difference to what was watched even if the time when it was watched varied—time shifting rather than the playing of rented tapes accounting for the lion's share of VCR use in Britain.

With the satellite revolution postponed, cable still a small business in the UK, and VCRs used for re-scheduling broadcast programmes, British television was still dominated by the famous duopoly, BBC and ITV, with only a tiny proportion of viewing claimed by the independents who, anyway, contributed a minority of Channel 4's schedule.

So what did ITV and the BBC offer? In drama serials quite an impressive year. It began in January with *The Price* on

C4, a six-part thriller by Peter Ransley about a computer company millionaire (played by Peter Barkworth) whose wife and step-daughter were kidnapped by Irish terrorists. Well written, and tightly directed, *The Price* was interesting for being co-produced by the independent company Astramed and Eire's state broadcasting company RTE. Channel 4's other triumph was *Octopus*, an import from Italy (C4 contributed co-production money) about a determined attempt by one uncorrupted policeman to bring the local Mafia chapter to book. It recited the usual tale of the secretiveness of British government, the dangers of the nuclear age, and finally the very future of the planet. It drew splendid performances from Bob Peck and Joe Dan Baker, as the British detective and the rogue CIA man—and was, in all, the best bit of real television in 1985.

Octopus was a much less weakly area with nearly everything of quality being set in Northern Ireland. *Contact* in BBC2's "Screen 2" series in January, for instance, was an extraordinarily effective piece of work, virtually without words, itemising the activities of a border patrol during which they scarcely dared breathe. *They of Blood* on the same channel in the winter confirmed that Graham Reid is a magnificent writer of dialogue; his pained and often painful family arguments told more about life in Belfast than entire series of documentaries. But asking him for six whole plays was apparently too much.

The year's greatest concentration of sex and violence occurred during a BBC play in April but attracted not so much as a peep from Mrs Whitehouse. No doubt even she would feel something of a twit wagging her finger at the author of the work in question, *Titus Andronicus*, which brought to an end the BBC's complete works of Shakespeare.

If I had a prize to give for the year's most interesting entertainment and original single

drama it would go to C4's *Max Headroom*, written by Steve Roberts and directed by Rocky Morton and Annabel Janek. Computer graphics and television's own place in the world were significant factors, but above all this production looked natively contemporary.

Just as single dramas were weaker in 1985 than drama serials, so single documentaries were weaker than documentary series. My award for the best single documentary would go to Jonathan Hill's charming and fascinating programme *To the World's End*. which was the most significant of the year: 54.8 per cent across the week, with all those hours of "Three-iron, foreight" on BBC2 contributing an unmatched 20.5 per cent to the Corporation's total.

Commercial television's biggest share came in the third week of January when ITV and C4 together took 60.5 per cent of the audience, leaving the BBC with a worrying 39.5 per cent. That is the sort of split which the BBC believes must not occur often if politicians are to be persuaded to sustain the licence fee, or indeed any form of finance for public service broadcasting. Sure enough, with Michael Gove's stamp of more buoyancy into BBC1, the Corporation has net subsequently sunk below a 41 per cent share.

Single drama was the ratings phenomenon of the year was obviously *EastEnders*, BBC1's twice-weekly soap opera set in London's East End which was launched in February. It attracted 17.75m viewers in its first week, sank steadily to 7.75m in July, and then (with the help of the newly aggregated weekend omnibus repeat, a system which also takes Brookside to the top of the Channel 4 ratings) climbed inexorably through 13m in August, 15m in September, 16m in October, and 15m in November to a staggering 21.6m in December.

And for 1986? More hours of daytime wastes will be contested more competitively and those hours when you see only a page of Teletext will be reduced. A few more homes in a few more areas will be offered cable television at prices which will, again, make the licence fee look like a bargain. And the report from the Peacock Committee will inform those in the industry if it does not opt for some form of advertising on BBC channels, however little initially.

Hell's Angels/Royal Court

Dominic Gill

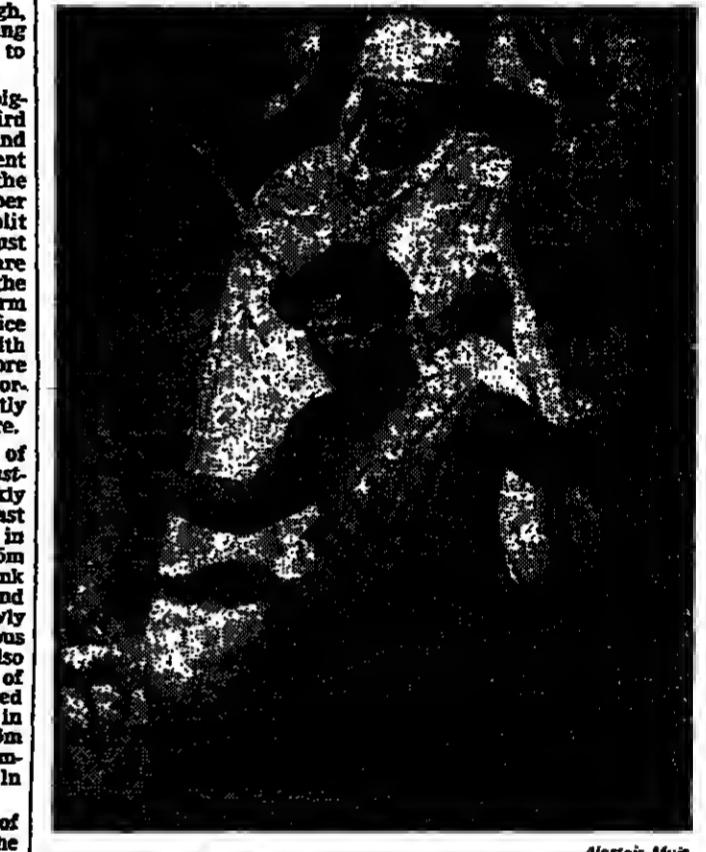
Nigel Osborne's new music-theatre work *Hell's Angels* is directed by David Freeman, who also wrote the libretto, and was given its premiere on Monday night by the Opera Factory London Sinfonietta. Osborne tells how the work was conceived in a recent interview in *The Stage*. "Originally we based the libretto on a play by Oskar Panizza, which is the story of how God punishes the Borgias. Pope and his court for their absolute excesses. It's a marvellous piece of theatre, and also very lively and provocative—so much so that it was banned at the time it was written. Then we extended this in Freeman's text to include a kind of modern version of the story concerning a recent Vatican intrigue."

"The idea is that the opera is about myth and superstition. It has not got a single message, but has very many messages: we are setting a number of different things in resonance, through the contemporary myth, a fiction, though it may well be true. It's a serious piece, but also very comic. It may strike some people as being outrageous at times, but the intention is fundamentally serious. The score is designed very tightly, though it is varied in its mixture of instrumental and electronic music... Like the story, the music tries to straddle two levels of lightness and weight."

Elsewhere Osborne compares *Hell's Angels* to a morality play but adds that there are "several levels of ambiguity and no cast-iron conclusions." Conclusions, indeed, either conceptual, musical or dramatic, there are not but David Freeman's busy and colourful production keeps the movement alive even when it is becalmed (though never deserted) by the music.

It is not first and foremost a musical experience. Much of Osborne's score is apt, and some of it is very pretty; but one does not leave the theatre, at first hearing at least, with the resonance of a musical score and free recitative—and by the unfolding stage picture.

The ending is mysterious, unresolved, not altogether satisfying. The lighting and lighting are still strikingly effective. The singing of the large cast, and the London Sinfonietta's instrumental playing, were excellent. Odd, interesting, and worth a visit—though book soon, for all that melody is bound to draw the crowds.



Tom McDonnell (top) and Omar Ebrahim

The Nutcracker/Paris

Freda Pitt

Rudolf Nureyev's new production of *The Nutcracker* for the Paris Opéra Ballet has brought him his first unblemished success since he took over that brilliant but wayward company two seasons ago. Although the basic concept of Clara as a lonely child in a world that adores her remains, the treatment is substantially softer than that of Nureyev's earlier edition, as reproduced in *Le Grand Gédon* in 1985 and at La Scala, Milan, shortly afterwards.

In the first place, both Monique Loudières and Elizabeth Marin look much too happy and confident for us to believe on the one hand that they could be so slighted by their relations and on the other that they would need to take refuge in dreams while Drosselmeyer's identity takes on even greater ambiguity with the lack of interest shown in him by his Act 1 hosts. In the opening sequence he is set upon by the youths of the neighbourhood in much the same way as another magician invited by Hoffman, but his fondness for his flesh-and-blood god-daughter can hardly be paralleled with Dr Coppélus's obsessive attachment to his doll. Merging Drosselmeyer with the Nutcracker prince, after the rats have been vanquished by his younger embodiment (Stéphane Elizé), has little serious justification beyond Nureyev's original wish to perform the double role, it being scarcely credible that Clara should equate that mysterious elderly gentleman—however tender, however generous—with any sort of prince charming.

Casting from strength, Nureyev presented Patrice Bart as a nicely mischievous Grandfather, Bruno Campani alternating with Michel Legris as Clara's brother Fritz (here more high-spirited than *Elizé*), dashing Wilfrid Romoli among the guests and Isabelle Godin and Karin Avery leading a stylish group of Snowflakes. No choreography has yet matched Chailkovsky's enchanting score, and Nureyev's can certainly not claim to do so. At least at the Opéra the music was given its full value by the orchestra under Ulf Schirmer. The ubiquitous John B. Reed was responsible for the skilful lighting which does much to heighten the contrast between the dramatic and gloomy moments and the triumphantly luminous ones.

Arts Guide

Music/Monday. Opera and Ballet/Tuesday. Theatre/Wednesday. Exhibitions/Thursday. A selective guide to all the Arts appears each Friday.

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Theatre

LONDON

Noises Off (Savoy): The funniest play for years in London, now with an improved third act. Michael Blakemore's brilliant direction of back-stage shenanigans on tour with a sold-out fate is a key factor. (734 2287).

42nd Street (Drury Lane): No British equivalent has been found for New York's Jerry Orbach, but David Merrick's tap-dancing extravaganza has been resoundingly received. American Clark League is a red find as Peggy Sawyer, and Michael Gambon and Michael Gove (Adelphi): Clark, efficient and enjoyable revival of Britain's biggest war-time musical hit with Robert Lindsay in the Lupino Lane role emerging as the best new musical star since Michael Crawford.

Edge of Darkness (which): Love among the diplomats, according to Ronald Harwood, has a superb role for the matchless Maggie Smith reviewing a cross-cultural affair with Edward Fox in the shadow of a summit between The Soviet Union and Britain. Fluent direction by Peter Yates of the West End's best new play of the year. (734 1126).

Intimate Apparel (Quinn): Love among the diplomats, according to Ronald Harwood, has a superb role for the matchless Maggie Smith reviewing a cross-cultural affair with Edward Fox in the shadow of a summit between The Soviet Union and Britain. Fluent direction by Peter Yates of the West End's best new play of the year. (734 1126).

Julius Caesar (Hollywood-style production, using the latest sound and lighting technology, in which Robert Hossein miraculously preserves Shakespeare's eternal truths. Palais des Sports. (4828400).

PARIS

Treva (Camer): Hollywood-style production, using the latest sound and lighting technology, in which Robert Hossein miraculously preserves Shakespeare's eternal truths. Palais des Sports. (4828400).

La Cage aux Folles (Palace): With some tuneful Jerry Herman songs, Harvey Fierstein's adaptation of the French film manager, barely, to capture the feel of the sweet and hilarious original between high-kicking dances and gaudy chorus numbers. (737 2626).

Fuji No Baqueira (Booth): In moving to Broadway, Herb Gardner's touching, funny and invigorating play about two oldies retains its star, Judi Dench and Cleo Laine, who almost conquer the world when they

think they are just bickering with each other. (226 6200).

A Chorus Line (Shubert): The longest-running musical ever in America has not only supported Joseph Papp's Public Theater for eight years but also updated the musical with its backstage scenes in which the songs are used as auditions, rather than emotions. (226 6200).

WASHINGTON

A Seagull (Eisenhower): Colleen Dewhurst stars in Peter Sellars' latest production for the American National Theatre, which is bound to be imaginative and unconventional in the hands of its director. (254 3820).

In Rehearsal of Flight (Kaufman): Bill Irwin's theatrical spoof shows off the mime's talents in confronting a maimed stage curtain and a disappearing shoe on the quest of a new theatrical genre. Ends Jan 12. Arenas Stage. (468 3303).

TOKYO

A Christmas Carol: Dickens' story performed in English by Tokyo's only professional English Theatre company, Albion-za, at their new studio theatre, Albion-za Studio. (Ebisu 443 2903).

Uchijahana (Evaporation of Space), the Yume no Yumin-sha company directed by Hisaki Noda. One of Japan's most popular avant-garde troupes and cut figures, their hyper-energetic style and fantastical illogical plots have won wide support from the young, but leave adults baffled. Hodan Theatre, Shinjuku-ku district. (237 0200).

990 0666

FINANCIAL TIMES

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Wednesday January 8 1986

Political link with Europe

MR NICHOLAS RIDLEY, the British Transport Minister, and Mr Jean Aurox, his French counterpart, gave every impression yesterday that their meeting in Paris to discuss the Channel fixed link was cordial. It is fitting, however, that the last minute wrangling over the link should be political rather than technical. Having disagreed so long about the need for a link, it is hardly surprising that the two governments should now be politely disagreeing over the technicalities.

With so large an infrastructure project, it is only too easy to put excessive weight on engineering or economic factors and to forget that its principal rationale is political. A fixed link is not an economic necessity. In 1982, the Anglo-French Channel Link study group comprising officials from both countries' transport departments, concluded: "There is no doubt in our minds that port and shipping services could be developed to handle the growth in surface traffic projected up to the year 2000 and beyond."

Trading patterns

Nothing has since changed to render that assessment invalid. The rapid build up of cross-Channel traffic in the decade after Britain joined the European Economic Community reflected a structural change in UK trading patterns that may now be largely complete. There is little doubt that investment on a scale which would be modest set against the cost of any sort of fixed link would be sufficient to finance a new generation of larger, faster and more efficient ferries.

But whatever the economic arguments, the political case for a fixed link is strong. A tunnel or a bridge would be a tangible and permanent symbol of Britain's commitment to Europe, the importance of which cannot easily be quantified. The project—in Britain at least—does capture the popular imagination and should prove electorally advantageous for Mrs Thatcher. Both governments, sensitive to problems caused by high unemployment, are aware of the attractions of seeing to do something about it by initiating a big infrastructure project. In the UK, a fixed link is politically easier to justify than a comparable domestic project.

US faces the hard questions

REPRESENTATIVE Les Aspin, chairman of the House armed services committee, has estimated that the Cranmer-Rudman budget-balancing amendment could lead to an automatic cut of \$600m or more than a fifth in US defence appropriations for 1987. This startling figure may at least draw the attention of the outside world to the fact that the amendment has been passed, though it will do nothing to settle the debate about how much difference it will make. Enthusiasts will argue that it shows that the amendment is tough, not gradualist. Skeptics will say it is only short-term. It demands the impossible and will be evaded. World-beholders like our recent contributor Dr Martin Feldstein will cite the estimate as a measure of the pressure on Congress and the President to agree on less draconian measures.

What can be hardly doubted is that Cranmer-Rudman will force the Administration and the Congress to think much more seriously than they have until now about how the US government deficit might be reduced, whether or not they actually budget for the prescribed \$14 billion dollar deficit prescribed for 1987, let alone achieve it. Since the amendment prescribes automatic cuts in defence and some politically sensitive civil programs, it is likely that the necessary bottom line, it is supposed to enforce compromise. The amendment has some escape clauses, notably in case of low economic growth, and its legality is still under challenge; but the debate is now on.

Fiscal relaxation

There is no sign yet, though, of any great debate in the outside world about how to respond to a potentially drastic change in US policy—or even of any recognition that the outside world is in any way concerned with American peacekeeping. Since the muted ambiguities of the Plaza meeting, when the Germans and the Japanese appeared to agree that they might find some room for fiscal relaxation if the US deficit was indeed reduced, nothing has been heard.

Given the stately pace of US budget-making, it will be some time before there is any pressing need for action in the out-

side world; but it is surely not too early to start a discussion. The conventional wisdom, as argued by the OECD and by such private sector commentators as George Gruenwald, is that a major fiscal tightening by the US will bring the fall already achieved in the dollar, will sharply depress export demand world-wide, and reduce growth if no offsetting action is taken.

This analysis seems to be implicitly rejected by the governments of Germany, Japan and the UK, all of whom see budget-balancing as virtuous in itself, and seek, with various degrees of determination, to practice it. They have long argued that the high deficit is the main cause for high interest rates all over the world, and that a reduction in US borrowing and world-wide borrowing costs would make matters better, not worse, and notably better for the debtor countries of the world.

Monetary policy

While this could indeed prove true, it amounts to backing a theoretical hope against a near-certainty, and this really is not an adequate form of contingency planning. It is not just a hope but a general belief that the combination of dollar depreciation and fiscal tightening will bring a welcome US current account deficit from 1987 onwards. Since the growth of that deficit has provided nearly half the growth of total demand in Europe, and a higher proportion in some Asian economies, the implications are far from trivial. Indeed some Asian economies are already in near-recession simply because US demand is growing more slowly, let along falling.

This does not mean that a fiscal balancing act is the only answer, or the right one. A resumed flow of capital to the developing countries, at lower interest rates, would probably be a more helpful counterpart; but it cannot be taken for granted that these results will automatically follow any US deficit reduction. Technology and deregulation have thrown monetary policy into confusion wherever they have made an impact, and lenders are scared. A helpful outcome, however, defined will be much likelier if we prepare for it.

THE Third World debt crisis may at last be over. The latest propitious signal may have been an odd one, but is impressive nonetheless. It came on New Year's day.

When President Ibrahim Babangida of Nigeria announced that his country would limit its foreign debt payments in 1986 to 30 per cent of its export earnings, the financial community far from reacting with alarm and outrage raised hardly a murmur of protest.

Developing countries massive debts will doubtless remain an endless source of difficulties for many years ahead; but they are losing their capacity to shock the international system. Third World debt is maturing from a crisis into a mere problem.

Back in 1983, the fate of the whole world economy was thought to hang on a flimsy thread of mutual dependence which bound the great international banks, the IMF and the debtor countries of Latin America, Africa and Asia. Each time this thread was stretched — by an intransigent debtor, an unwilling bank or a deterioration in economic conditions — the dreaded word "default" along with its attendant bank runs, trade wars and monetary panics, would be exhausted from the vocabulary of financial crisis.

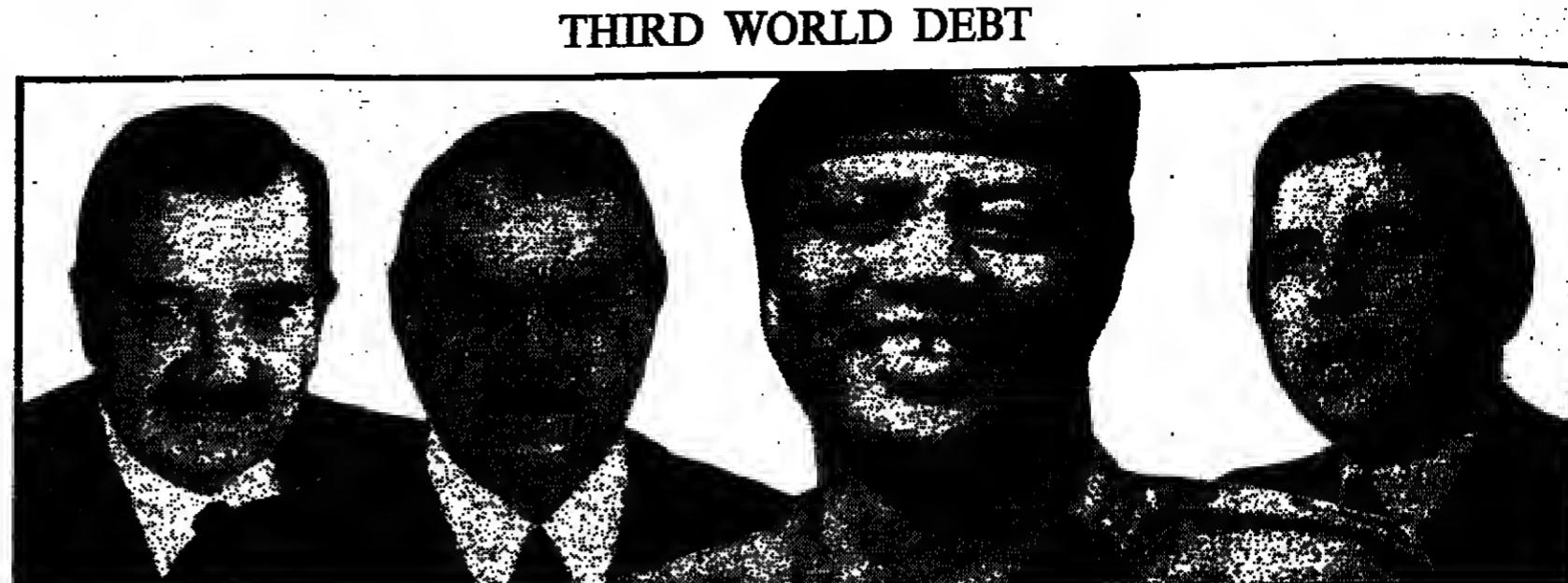
Against this background hardly anyone dared to contemplate what might occur if the debtors started to seize the initiative from the IMF and the banks. It was unthinkable that confidence and stability might actually be increased as the balance of power shifted in favour of the debtor governments. Yet this is exactly what has been gradually happening over the past year.

Nigeria's decision to limit its debt servicing to 30 per cent of exports — little more than half the money required to pay all of the interest and principal coming due this year — may be less radical than the ceiling of 10 per cent of export earnings imposed by President Alan Garcia of Peru. President Babangida's plan is not, apparently, a non-negotiable ultimatum. It comes from a country which has serviced all its medium-term debts on time and has accorded banks preferential treatment in relation to other creditors. Furthermore, as Nigerian officials have been at pains to point out, the 30 per cent target would still leave room for Nigeria to repay its debts much faster than most Latin American countries.

Given the expected duration of the fixed link concession, whatever decision the two governments take in the next few weeks will rule out other options for decades. It therefore seems unwise to settle for a scheme that does not include a road link. The cheapest and most practical on offer appears to be that of Channel Expressway. Assuming the technical problems of tunnel ventilation are surmountable, the Government should strive to overcome French reservations about this project; in January 20, deadlines for a decision should not be regarded as immutable if agreement proves hard to reach.

Given the expected duration of the fixed link concession, whatever decision the two governments take in the next few weeks will rule out other options for decades. It therefore seems unwise to settle for a scheme that does not include a road link. The cheapest and most practical on offer appears to be that of Channel Expressway. Assuming the technical problems of tunnel ventilation are surmountable, the Government should strive to overcome French reservations about this project; in January 20, deadlines for a decision should not be regarded as immutable if agreement proves hard to reach.

When a country like Nigeria or Peru sets a target rate of debt servicing this procedure is effectively reversed. The country's ability and willingness to spend its foreign exchange earnings on debt servicing, rather than consumption or investment, becomes the dominant constraint in the negotiations. It is now the banks that have



Presidents Alfonsin of Argentina and Sosney of Suriname (left and centre left)—defence of the IMF. Presidents Babangida of Nigeria and Garcia of Peru (centre right and right)—imposing a solution on the banks.

For crisis, read problem

By Anatole Kaletsky

to "adjust" to this constraint—either by lending the country more money or by rolling over some of their interest payments.

As a by-product of this, the IMF has been losing its power over economic policies in debtor countries. For the first three years of the debt crisis, Mr Jacques de Larosiere, the Fund's managing director, was the only man who could harness the lending power of the banks on behalf of an approved debt.

Today, the IMF's assistance

seems less indispensable, the "basket cases" like Peru and Bolivia are effectively borrowing more from their banks than they would have got under IMF programmes, simply by withholding interest payments.

Rich countries like Brazil, Venezuela and Nigeria, on the other hand, are calling the bluff of bankers who insist that an IMF agreement is a precondition to a loan.

On the negative side, there

is first the IMF's mixed record of achievement with its adjustment programmes:

Second, it has become steadily clearer over the last three years that banks cannot force sovereign debtors to stick to the letter of their loan agreements. Although the practical difficulty of enforcing sovereign loan contracts has long been taken for granted by the banks' own lawyers, it has only gradually been recognised by the bank managers and the debtor governments themselves.

More recently, a link between sovereign debt servicing and financial probity has begun to fray. First there was South Africa, a country widely respected by bankers for its financial management, ultimately suspending its principal repayments. Then came the governments of such unquestionable reputo as Germany, the Netherlands and France,

and then Argentina.

The third, and perhaps most important, development is that the debt service ceiling, which was almost never questioned, has been breached by the US. The US has been allowed to exceed its debt service limit, or by Brazil's refusal to come to terms with the IMF?

Largely because they are

increasingly looking at the

casually denying responsibility for the debts contracted on their behalf by the International Tin Council. Their ultimate defence appears to be sovereign immunity;

No Third World government has yet seen fit to use such arguments, but the worldwide trend towards greater flexibility in the treatment of sovereign obligations must be contributing something to the shift in the balance of power towards the debtor governments.

Fortunately, there is also a positive side to this shift. The IMF's power may have declined, but the influence of its ideas has spread even to countries which vehemently denounce it as an institution.

At the same time, financial markets in the industrialised world have gradually become less inclined about the threat of Third World debt to the international banking system.

In combination, all these trends are making the debtor countries more self-assertive and the traditional style of debt negotiation less successful. However, their net effect may ultimately prove stabilising, rather than disruptive.

Why have financial markets

not been alarmed by Nigeria's announcement of a debt service limit, or by Brazil's refusal to come to terms with the IMF?

Largely because they are

increasingly looking at the

actual policies which countries

are pursuing and the actual amounts of cash which they are

likely to pay them.

Partly as a result, attention is shifting from the financial implications of the debt crisis. This is the real significance of the call by Mr James Baker, the US Treasury Secretary, for "growth-oriented adjustment" in the debtor countries.

In the end, growth-oriented adjustment is bound to mean reducing the amount of money

which Third World nations spend at present on servicing their debts. For it is clear that the present rate of debt repayment, involving very large net transfers of capital from Third World countries with huge unexploited investment opportunities with savings surpluses, is undesirable.

How these perverse invest-

ment flows can be reversed

without disrupting the interna-

tional financial system will be

the central question in the next phase of the Third World debt problem.

In fact Mexico did slightly

better than last year. Its

current account surplus exclud-

ing interest and export

earnings was equivalent to 30

per cent of export earnings (see

chart 2).

In relation to the figures for

Mexico and most other

countries in column 2, a debt

service ceiling of 30 per cent

would imply very little relief

for most countries and few

problems for the banks.

A 20 per cent ceiling, on the

other hand, would involve a

substantial reduction in debt

servicing burdens and would

reduce significantly the capital

flow from the Third to the First

World.

But would such a ceiling

threaten the stability of the

international banking system?

This depends partly on whether

debt payments above the

ceiling were simply repudiated,

or whether they were rolled

over into new borrowing. In the

latter case the banks could

theoretically survive in the

short term, as they did in the

1970s, when developing

DEBT SERVICE INDICATORS

	(As % of total export earnings, 1985)	"Cash flow" ratio*	"Solvency" ratio†
Argentina	126	24	16
Brazil	47	39	15
Mexico	67	35	12
Nigeria	37	17	3
Peru	37	22	11
Venezuela	37	41	5

* Interest and capital repayments due in 1985 as percentage of export earnings. † Current account surplus, excluding interest payments, as percentage of export earnings. ‡ Total debt payments required to maintain long-run solvency (see text).

Source: American Express estimates and "Economic Policy," Vol. 1, Vol. 1.

Men and Matters



"Do you get the feeling that the British would really prefer a fixed link under the Atlantic?"

says, it is a question of the "further integration" of joint operations.

Not to be sure, that there is any shortage of money in the film world. News reaches me from Hollywood that Frank Rothman, chairman of Metro Goldwyn Mayer, is to give up the burdens of his great empire in return for a suite of full of Ingots minded from the silver screen—\$1,112,334 is the value of his farewell package. MGM itself is heavily in debt.

The new company is to be known, somewhat grandly, as "The British Film Distributors and is based on an existing, limited joint venture formed in 1982.

Gerard Lefevre, who has worked for Fox in France for the last five years, is to be chairman.

For rejects the suggestion that closing its own London distribution company represents a slimming down of its UK activities. Rather, a spokesman

was not unexpected. An ex-Chancery judge, aged 64, noted

THESE are trying times for Mr Yasser Arafat, chairman of the Palestine Liberation Organisation. He now finds himself dangerously isolated in Arab forums, and perhaps more ominously, there are increasing signs of restlessness among his constituents in Lebanon, the Gulf and in the occupied territories.

Mr Arafat's failure effectively to join the peace process with King Hussein under the terms of an accord agreed by the two on February 11 last year is contributing to disillusionment among moderate Palestinians.

The Jordan-Syrian reconciliation, including the recent summit between King Hussein and President Hafez Al-Assad, is probably adding to Mr Arafat's discomfort as he surveys bleak prospects for 1986.

A rebirth of Syrian prestige in Arab forums, brought about by its tentative accommodation with Jordan plus possible success in ending more than a decade of bloodshed in Lebanon, is not something Mr Arafat can look upon with equanimity. The recent rash of Middle East-related violence has helped to undermine Mr Arafat's position, demonstrating as it does his inability to control disparate elements of the Palestinian movement.

The hijacking of the Italian cruise liner, Achille Lauro, by a group linked with the PLO chairman, dismayed many Palestinians because it reduced the momentum towards peace and at the same time neutralised the adverse publicity Israel had attracted over its October 1 raid on the Tunis headquarters of the PLO.

Mr Arafat's allegations, in a newspaper interview published at the weekend, of Syrian and Libyan backing for Palestinian dissidents aimed at discrediting the PLO and hindering the peace process, reflect his concern at the negative effects on his prestige.

PLO officials, Western observers, specialists on the PLO and Arab diplomats interviewed recently in various Middle East capitals give a view of the Palestinian movement as weaker, more fractured, less relevant and more adrift than it has been for years.

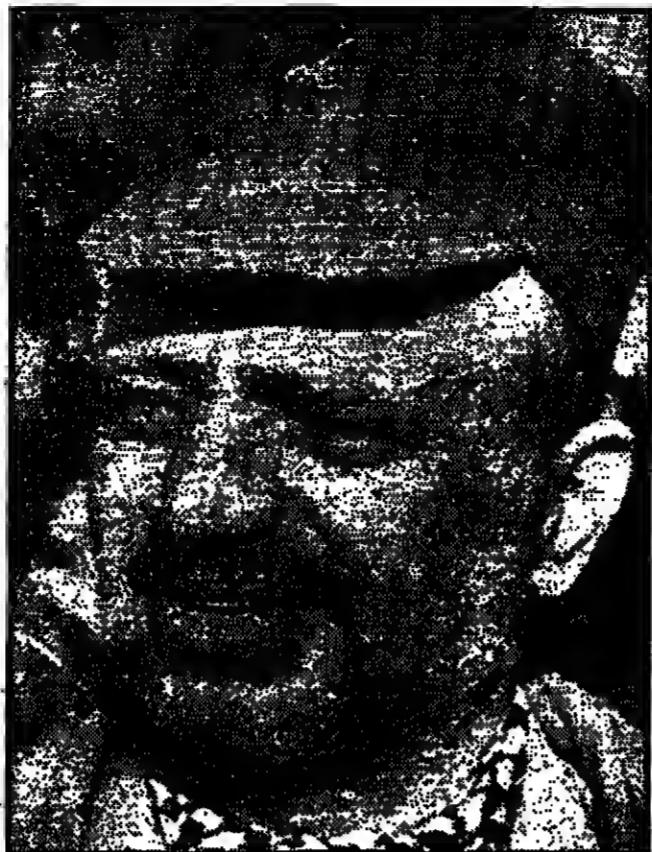
Last year, which began with promise of progress towards peace after the signing in Amman of the February 11 accord, ended in disappointment. There is a real sense in Middle East capitals of lost opportunity.

Last November in Baghdad, Mr Arafat's mainstream Fatah faction failed to agree on a clearcut response to King Hussein's demand that as a way of removing one of the main barriers to peace it accept UN Security Council resolutions 242 and 338 which imply recognition of Israel's existence within pre-1967 war boundaries.

Arafat under pressure

Why the PLO's divisions block the path to peace

By Tony Walker in Amman



Mr Arafat: finds himself isolated.

The PLO has always objected to the UN resolutions on the grounds they do not address the question of the Palestinian right to self-determination, treating the "problem as merely one of refugees."

In Amman, a Western observer said the PLO is facing the worst of all possible worlds. It is both threatening in the peace process, nor is it taking steps to heal rifts with factions based in Syria, opposed to Mr Arafat's leadership.

The danger, said the Western official, is that the PLO mainstream has been immobilised on one hand by its inability to accept the Hussein strategy for peace, which involves compromise on matters of principle, and on the other by Syrian antagonism.

King Hussein appears resigned, for the time being, to living with PLO hesitation over the terms for it joining the peace process. His gesture of reconciliation towards Syria is aimed in part at broadening participation in and support for peace efforts within the framework of an international conference. The King needs Palestinian support for such a venture, hence the continuing, though faded, relevance of the February 11 accord.

Jordanian officials are saying there are, nevertheless, time

limits on Mr Arafat delivering on his side of the bargain.

These officials note ruefully that the PLO chairman was expected in Amman weeks ago. His continued absence is regarded as unprincipled.

If Mr Arafat is unable to deliver, the King will come under renewed pressure to seek alternative Palestinian representation in the peace process, nor is it taking steps to heal rifts with factions based in Syria, opposed to Mr Arafat's leadership.

Still, there are powerful forces in Jordan which would not be averse to seeing Mr Arafat dumped or, alternatively, moved aside, perhaps to the largely ceremonial post of president of the Palestine National Council—the Palestinians' parliament-in-exile, and on the other by Syrian antagonism.

King Hussein appears resigned, for the time being, to living with PLO hesitation over the terms for it joining the peace process. His gesture of reconciliation towards Syria is aimed in part at broadening participation in and support for peace efforts within the framework of an international conference. The King needs Palestinian support for such a venture, hence the continuing, though faded, relevance of the February 11 accord.

Mr Arafat gives no sign of relinquishing control of the organisation he has headed

since 1969, and there appears no serious challenge to his authority from within his own Fatah mainstream.

His leadership, he said recently, was reconfirmed according to the PLO's democratic processes at a meeting of the 17th Palestine National Congress in November 1984. Certainly, in a legalistic sense, only the PNC which is the PLO's Parliament, can reject or select the PLO chairman. However, in the Middle East political pressures can sometimes explode in a way which bypasses recognised constitutional paths.

Mr Arafat cannot, however, be completely sanguine about his hold on power. If his strategy of negotiation and limited guerrilla activity causes further divisions in the Palestinian movement, his position within his own Fatah mainstream may become precarious.

If peace efforts collapse and there is a shift towards the uncompromising Syrian-based militant Palestinian groups, then Mr Arafat's position could become untenable. Within his own Fatah mainstream, there is talk of a post-Arafat generation. What this will bring is unclear, but it may lead to a hardening of Palestinian attitudes. King Hussein's persistent and gloomy prediction that a "last chance" for peace is being squandered may prove correct.

Many observers in the Middle East believe, however, that the end of a political era is approaching, and that a watershed in the Palestinian cause is in sight. In Palestinian circles, there is talk of a post-Arafat generation. What this will bring is unclear, but it may lead to a hardening of Palestinian attitudes. King Hussein's persistent and gloomy prediction that a "last chance" for peace is being squandered may prove correct.

THE CASE for sterling's participation in the exchange rate mechanism (ERM) of the European Monetary System was examined last year by the Treasury and Civil Service Committee, which voted for procrastination. The opposition seemed to be based principally on concern lest sterling should be tied to too uncompetitive a rate to the D-mark.

A devaluation bias to seek to improve UK competitiveness is not, however, the best—or even a good—argument for staying out as the London Business School pointed out last October, there are strong arguments for going in at an apparently uncompetitive rate but "any experience suggests only in the situation where we make progress in reducing our inflation rate to German levels. Sterling has fallen by about 7 per cent against the D-mark in the meantime, and this will renew calls for the pound's participation. But there is a better reason for deferment—one which merited only four paragraphs in the committee's report: sterling's position as an international currency.

The LBS saw this point: "If we joined . . . we would be attempting to link two freely-floating international currencies" (the pound and the D-mark), "with open capital markets." But it was then drawn off on to a tangent offering a solution of the sale of oil bonds to Britain's EMS partners to counter the effects of oil-prices related capital flows. This is not the answer. Foreign exchange dealers would not necessarily behave in the economically rational way suggested. As oil and other commodity prices move together, so the effect of oil prices on sterling will be cancelled out. Sterling is not just an oil currency—despite recent concentration on this aspect—and its price is susceptible to a wide range of other influences which change in weight constantly in response to both reason and fashion.

Since capital flows bulk even larger than trade payments, there are currently only five major international investment currencies—the US dollar, the yen, the D-mark, the Swiss franc and sterling. All float relatively freely against each other in the event of parity with all their accompanying measures, could be extremely

Exchange rates

The strains of linking sterling to the EMS

By Peter Robeson

market heavily influenced by exchange rate expectations. Each of them needs a considerable degree of exchange rate flexibility to absorb the buying and selling pressures that fluctuate enormously throughout each trading day. The potentially stabilising influence of the Group of Five is still a very long way from being able to "smooth" markets effectively and continuously even if that were an objective to which all the respective governments were committed.

None of the other currencies participating in the ERM—from the D-mark—falls into this major category so that the EMS bloc itself can be virtually insulated from the cross-currents that arise particularly from international investment considerations. The EMS as presently constituted is actually a D-mark block with the other ERM currencies floating narrowly up and down on the D-mark's dollar rate tide.

The EMS has enjoyed a long period of internal stability but mostly because of a very strong dollar and weak D-mark. To date, the dollar's decline, under G5 intervention influence, has not provoked internal EMS strains. This owes much to the emphasis placed on the yen/dollar aspect and in smaller degree to such EMS economic convergence as has taken place. If sterling had been in the ERM, the past would not have been so peaceful and the immediate future prospect—particularly if the dollar were to make a further downward lurch—would almost inevitably include a major speculative attack on whatever (fixed but adjustable) ERM sterling/D-mark parity had been agreed upon, with the market having access to almost limitless ammunition.

The choice of parity for entry would clearly pose a—largely political—problem and one aggravated by the wide divergence of economically well-informed and data-supported opinion about the appropriate level. Since such parities are adjusted as well as mixed, capital flows bulk even larger than trade payments, there are currently only five major international investment currencies—the US dollar, the yen, the D-mark, the Swiss franc and sterling. All float relatively freely against each other in the event of parity with all their accompanying measures, could be extremely

disruptive to both the UK and German economies. Indeed, it could delay or even destroy further progress towards a more general stabilisation of the major exchange rates that has been generated by the G5 initiative and which is so important to the world economy.

Last summer Mr Pierre Languetin, the president of the Swiss National Bank, while urging a move towards a zone of monetary stability in Europe, made it clear that he had no wish to set limits for the movement of the Swiss franc against either the dollar or the D-mark. The National Bank wants to preserve its discretion to assess a given situation. Such a stance seems equally appropriate for the UK in present circumstances. As an FT editorial pointed out in November, Mr Volcker has been remarkably successful in conducting an old-fashioned discretionary monetary policy and, with the decline of the Fed's reliance on monetary aggregates also, there is much to be said for a similar approach to the anti-inflationary policies by the British Government in which the renewed emphasis given to the exchange rate is restored to the "hidden hand" and is not made a hostage to fortune in the form of a posted price range.

There are other considerations. Greater economic convergence is needed—specifically to prevent repeated currency realignments—and other states, notably France and Italy, must abolish their capital controls. But most importantly, the G5 initiative has, after all, made progress. The Americans have at last been persuaded to join concerted arrangements for a controlled descent of the dollar and the Japanese have started to open up their economy. Both initiatives are delicate plants in potentially hostile environments. It would seem much more sensible to nurture them carefully rather than introduce into the schema of things a development which at this stage could trigger disruptive activity that might endanger the more general—and much more important—progress towards stability.

The author was a member of the Economic Department of the Bank of England until 1974 and then exchange adviser to Barings until 1982.

Liability of directors

From Mr C. Morris

Sir—As an accountant practising in an area where fraud is frequently encountered, I have read with interest the many features and articles on this topical subject. It appears to me that one fundamental aspect has been overlooked by those concerned which, if given proper consideration and an appropriate simple amendment in legislation could greatly assist in obtaining convictions of those guilty of fraud.

I am referring to the liability of directors to maintain and preserve corporate records. Such vital data are the foundation of any successful prosecution, but the penalties under existing legislation for failure to observe the law in this regard are substantially less than those for the crimes which the records would reveal. It is, therefore, follows that any director who has committed a fraudulent act is better off destroying the evidence against him or failing to record properly the transactions concerned.

In the United States failure to maintain and preserve corporate records is, I understand, a most serious offence visited with the most stringent punishment. Would it not be appropriate for similar legislation to be introduced in this country as a matter of urgency?

C. Morris
(National Director,
Insolvency Services).
Touche Ross & Co.
PO Box 137, Hill House,
1, Little New Street, EC4.

Building society activities

From the General Manager,
Halifax Building Society

Sir.—In his letter of January 3 Mr R. S. Gerrard expresses some concern about the proposed extension of building societies' activities.

Mr Gerrard does appear to misunderstand the basis of the composite rate of tax. The arrangement saves paperwork, and is therefore beneficial both for savers and for the Inland Revenue. It does generate an average tax rate below the basic rate of tax, but this is of no competitive advantage to building societies since the same composite tax arrangements now apply to savers with banks. Mr Gerrard's argument that composite tax should only be allowed for institutions which lend exclusively for housing would therefore have to be applied to the clearing banks.

Letters to the Editor

example, in a letter to a House of Representatives Committee, published last May, Norris Bradbury, former director of the Los Alamos weapons laboratory, and seven other experts, wrote: "Contaminated nuclear testing is not necessary in order to insure the reliability of the nuclear weapons in our stockpile."

In the US, the demand for continued testing comes primarily from the weapons laboratories themselves. Weapons are currently being designed on the deliberate and unnecessary assumption that continued testing will always be possible. This design policy, which represents a reversal of an earlier one, probably emanates from the office of Richard Perle, Assistant Secretary of Defence for International Security and Defence Law of the Reagan Administration.

Mr Gerrard also refers to the possible involvement of societies in industrial lending. This is not a power which societies have specifically sought, nor a service which government has suggested we might offer. Our understanding has been that this market at least was well supplied by the banks. Indeed, specialist firms from the clearing banks have often asserted that the problem lay in a shortage of worthwhile investment opportunities, not in a lack of funds.

Most building societies will now be devoting considerable resources to a careful consideration of the new powers which may become available over the next few years. The approach of the Halifax to combine our traditional lending and care with a desire to establish a new presence in some markets where the public will benefit from new and healthy competition.

D. Gilchrist.
PO Box 60, Trinity Road,
Halifax, W. Yorks.

No more need for nuclear tests

From Professor F. Pirani

Sir—Your Science Editor puts a curious gloss (December 27) on the continuing dispute over nuclear testing. "In another five years or so," he writes, "there may be little need of more nuclear test explosions by the US and Britain and perhaps by the Soviet Union too."

Many specialists would have it that there is already no more need of test explosions. For

additional lanes are to be constructed. At Runcorn, on a motorway spur, the position has seen a dramatic increase in traffic since the construction of the fixed high level road. Car sales continued unchecked!

Now what is required is an alternative road network to western Scotland, to the west of the M8 system over Shap.

Lancashire County Council has made some forecasts of what a toll road, over a Ribble barrage, could mean to the Liverpool to Heysham area, while in 1967 the Water Resources Board completed feasibility studies for a Morecambe Bay barrage and Solway crossing, which should be reconsidered before even a penny is committed to new methods of crossing the English Channel.

Private enterprise looks like getting its priorities wrong if it commits private funds to a Channel tunnel before getting the receptive infrastructure in place, based on overall cost benefit considerations.

(Alderman) John E. Gouldbourne.
6 Queen Mary Avenue,
Lytham St Annes,
Lancs.

Inflation accounts

From Mr P. Boyle

Sir—in common with Mr Edge-Parrington (December 27) I am disappointed that the accounting standards committee is to ask the Government to introduce legislation to compel companies to publish inflation adjusted accounts, although for rather different reasons.

I am disappointed to learn that the ASC has been unable to persuade preparers and users of accounts that inflation-adjusted accounts are of considerable value in presenting an alternative view of a company's financial performance and position compared to that shown by historical cost accounts. There are several methods for measuring financial performance and position, each of which is subject to certain limitations and deficiencies. It is misleading to suggest that traditional historic cost accounts are the only suitable measures of financial position.

I am also disappointed to read that Mr Edge-Parrington has re-introduced the red-herring of company taxation into the debate about preparation of accounts. The measurement of financial performance and position is, in principle, quite a separate matter from that of taxation. In any case, as a practical matter, it must be doubted whether the Chancellor of the Exchequer would permit a shift in the burden of taxes on the corporate sector merely because of a change in the basis of preparing company accounts.

British political parties have proved particularly inept at forward thinking or engineering boldness. Take the Barton bridge over the Manchester Ship Canal, the county engineer and bridge master wanted a four-lane crossing at the conception stage, but the notion was rejected by HMG. Now route pressure is so great, that the

Paul V. Boyle,
185 Milngate Road,
Bearsden, Glasgow.

Now Wall Street is wide open to international investors.



The 30% withholding tax on interest has been repealed. For non-US investors, this makes US government and corporate bonds considerably more attractive. Because for the first time ever, the largest, safest fixed income source in the world has completely opened up.

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SECTION II - COMPANIES AND MARKETS

FINANCIAL TIMES

Wednesday January 8 1986

Credit rating cut for Texas bank

By William Hall in New York

TEXAS COMMERCE Bancshares (TCB), one of the biggest and most successful banks in Texas, has had its credit rating lowered for the second time in less than a year.

The move is yet another indication of the mounting problems facing Texas banks which have been hit by heavy losses on energy and real estate lending.

Falling oil prices are having an increasingly serious impact on many customers of Texas banks and have undermined the local real estate market. As a result Wall Street is preparing for a further set of poor figures from the state's local banks when they begin reporting their 1985 results in the next couple of weeks.

Standard & Poor's, the US credit rating agency, yesterday lowered the rating on the bank's senior debt from AA to AA minus.

It noted that TCB's non-performing loans had climbed to a high of \$627m, or 4.8 per cent of loans, from \$367m, or 2.7 per cent of loans, at the end of 1984.

The increase in non-performing loans took place despite \$114.5m of net loan charge-offs over the same period. As a result earnings in the first nine months of 1985 were substantially down on last year's \$138.8m despite taking \$31m of securities gains.

S&P said that TCB's asset quality problems were partially mitigated by a "strong, high-quality capital base."

Sacilor buys minority interests

By David Houssiau in Paris

SACILOR, the French state-owned steel group, has taken full control of its loss-making long products and engineering steels subsidiaries previously jointly held with Usinor, the country's other nationalised steel company.

Under an agreement announced yesterday, Sacilor is to take over Usinor's 49 per cent stake in both Unimetal, the long products company, and Acomesco, the engineering steels subsidiary. The two subsidiaries made combined losses in 1985 of about FFr 4.5bn (\$602.8m).

Under the arrangements in force last year, Usinor had to absorb 49 per cent of these losses.

• The FFr 4bn bond being issued by Cie Française de Développement Industriel will comprise two equal tranches, one at a fixed interest rate and one at a variable rate.

The 12-year fixed-interest rate tranche will carry a 10.30 per cent coupon and have an issue price of 95.58 per cent. The second tranche will be issued at 95 per cent with a 12-year life, carrying an initial fixed-interest rate of 10 per cent.

David Marsh in Paris examines changes at one of France's largest financial institutions

New era dawns for a sprawling giant

FRANCE's sprawling Caisse des Dépôts et Consignations (CDC) is a giant cash-moving machine which scoops up savings in one part of the French financial landscape and invests them in another.

A shake-up on French financial markets and shifting government economic priorities are changing the way the machine works - and forcing those running it to adjust - long-established operating techniques.

Mr Robert Lion, chief executive of the CDC since 1982 and former senior adviser to Mr Pierre Mauroy, the Socialist Government's first Prime Minister, is piloting the CDC into a new era of competition, reflecting the growing rivalry between the CDC and commercial banks to capture savings.

Caught between a falling French savings ratio and more sophisticated French investors, which are becoming less ready to keep funds in traditional low-yielding tax-exempt savings deposits, the CDC - now 170 years old - can no longer rest on its laurels.

In future, says Mr Lion, the CDC - an important indirect borrower on foreign capital markets and an active manager of international bond issues - will be paying growing attention to marketing its expertise in financial services.

The CDC's main role is to act as the "central bank" for the nation's local savings banks (the Caisse d'Epargne system) as well as the Post Office savings bank.

A large proportion of the funds are then lent at preferential rates to finance local authorities and public housing projects. Last year the CDC lent a total of nearly FFr

COURT DECISION LIKELY TO AFFECT US TAKEOVER STRATEGY

Hanson tightens grip on SCM with further share purchase

By TERRY DODSWORTH IN NEW YORK

HANSON TRUST, the UK industrial holding company, moved into a virtually impregnable position yesterday in its pursuit of SCM, the New York conglomerate, when it bought a large block of shares in the US group to take its stake up to about 40 per cent.

Wall Street analysts said Hanson picked up at least 30 per cent of SCM's stock in an early morning flurry of trading. The share purchases followed a late-night court decision on Monday clearing the way for the UK company to proceed with its \$328m bid for SCM, in which it already holds a stake of about 30 per cent.

Hanson's move came while SCM

launched a last-ditch attempt to block the Hanson offer by announcing that it would seek a rehearing of the Appeals Court ruling by the full panel of 12 judges for the New York Second Circuit.

Wall Street arbitrageurs, however, indicated that this manoeuvre had little chance of succeeding. Within minutes of the opening of the New York Stock Exchange, the SCM share price jumped by 5% to \$74, only 25 cents below Hanson's all-cash offer for the company and well over the \$74 a share cash and paper being offered by Merrill Lynch, the Wall Street securities company, in a bid which included some of SCM's management.

Sir Gordon White, chairman of

Hanson's US activities, said yesterday he was "delighted" by the Appeal Court decision, which overturned a lower court ruling against Hanson by two-to-one majority.

The crucial aspect of the judgment was its rejection of the use of a so-called "crown jewel lock-up option" which had been granted by SCM to Merrill to induce the securities group to go ahead with its \$74 a share offer for the company.

Under the lock-up, Merrill had

the right to buy two of SCM's premier businesses at a pre-ordained price if anyone else acquired more

than a third of the company - a device meant to act as a deterrent to Hanson's rival bid because the exercise of the option would take away two of the businesses in which Hanson might be interested.

In the Appeal Court, two of the judges found there was "an abundance of evidence strongly suggesting a breach of fiduciary duty" by the SCM directors in granting the lock-up.

The judges said the directors had given only cursory consideration to the proposed lock-up, had not investigated the price of the deal sufficiently and had acted in a way which did not help the bidding process for the company.

Their overriding concern, they said, was to allow the forces of the free market to determine the outcome of the bidding.

Despite the very strong dissenting opinion of one of the judges, the federal court decision is likely to have a considerable impact on takeover strategy throughout the US. Lock-up options have frequently been used successfully in the past as devices to encourage a bid which might otherwise not be forthcoming, since they give the bidder the guarantee of acquiring some assets even if its overall offer fails.

More recently, in the frenetic takeover activity of the last two years, lock-ups have been used increasingly as a defensive device to stimulate a rival bid to unwanted offers. In the SCM case, and in a previous takeover battle at Revlon, the lock-ups were used even more controversially to protect defensive bids in which the management of the companies had some interest, because they would have formed part of the team taking over the business in leveraged buyout agreements.

In the past, the courts have usually accepted lock-ups under the "business judgment" rule, which broadly holds that judges should not second-guess boards of direc-

tors. This informal rule, presumes that boards know what is best for a company since they represent shareholders, and that the law should only clear cases of breaches.

In the Revlon case and now SCM,

the courts have indicated that they will scrutinise boardroom re-

sponses during a takeover battle with particular care when a lock-up option is at stake - particularly in a conflict which involves a bid from an organisation in which the management of the target company has an equity interest.

These principles were made par-

ticularly clear in the Revlon litiga-

tion, where a lock-up option was de-

nied because the court held that it was a give-away price which had not been validated by any independent adviser.

Initially it looked as though SCM

would win its battle against Hanson

partly because, in a crucial differ-

ence to the Revlon ruling, it had se-

cured an independent valuation

of the target company.

Under the lock-up, Merrill had

recently decided to raise FFr

972.5m (\$128.6m) through a one-for-

four rights issue, in part to help po-

sition the company for possible

acquisitions.

He was particularly satisfied with

Alsthom's recent acquisition of the

high and medium-voltage electrical

businesses of Sprecher and Schuh,

the Swiss electrical engineering

group.

Mr Desgeorges suggested that

this was "a model" of the sort of

transactions he hoped to make to

reinforce Alsthom's international ac-

tivities.

Alsthom saw its export perfor-

mance rise strongly last year with

new orders totalling FFr 14bn -

about double that of the previous

two years.

Exports accounted for about 50

per cent of Alsthom's new orders

last year. Even this was distorted

because in 1985 the company re-

ceived a large French order to con-

struct the new high-speed train link

in western France.

Excluding this order which was

accounted for in the 1985 figures

but which would run over a period

of years, exports accounted for

more than half the new business in

1985, Mr Desgeorges said.

Orders from French state institu-

tions such as the railways, the coal

board and the electricity utility now

represented only about 20 per cent

of total orders compared with be-

tween 33 and 40 per cent five years

ago, he said.

The formal announcement this

week by the French authorities that

France would in future order only

one new nuclear power plant a year

for its electricity system further

confirmed Alsthom's need to rely

increasingly on export markets, Mr

Desgeorges said.

Mr Desgeorges indicated that the

company was expected to report a

fall in earnings in real terms for

1985.

Mr Desgeorges suggested that

the company had some room to

maneuver in its financial plan-

ning, particularly in the area of

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INTERNATIONAL COMPANIES and FINANCE

Wessanen expects strong results

By Our Financial Staff

WESSANEN, the Dutch foods group which a year ago raised funds through the London share market, expects profits for 1985 to show a further strong increase.

The company said yesterday that sales had improved and that net profits would grow by about 25 per cent. For 1984 net earnings rose by 30 per cent to F1 48.1m (\$17.7m).

Wessanen, which is listed on the Amsterdam bourse but which raised \$9.5m (\$13.5m) in London at the end of 1984, also plans a share split. It proposes a four-for-one offering.

Profits had improved last year after benefits from the programme to diversify into more value-added specialised food products, the company said.

Officials cited the European flour division's expansion into the profitable grain feedstocks for the brewing industry as an example of this strategy.

The company also disclosed that it planned around F1 100m annually in capital investments for existing businesses in Europe and the US over the next three years.

European Options Exchange studies oil products move

BY LAURA RAVIN IN AMSTERDAM

THE European Options Exchange (EOE) and Rotterdam businessmen are considering launching the world's first options on crude oil and refined products this year.

The initiative marks another foray by the EOE in the increasingly competitive battle among the world's securities exchanges to gain investors' business. The Amsterdam-based EOE, the sixth largest options exchange in the world, has already pioneered internationally linked trading in currencies and precious metals.

Mr Tjerk Westerterp, EOE gen-

eral director, said yesterday that a feasibility study on a proposed oil options exchange located in Rotterdam should be finished by June at the latest.

The study group comprises Mr L.

W. Scholten, an EOE director; Mr G. Vanpraagster, a representative of the Rotterdam Chamber of Commerce; and Mr Roosendaal Bisschop, a former vice president of Bache Exchange.

Options, which provide the right

to purchase a certain underlying

time,

could offer hedging as well as speculative opportunities.

cal oil and products. Futures on crude oil and petroleum products are traded in London and New York, with the New York Mercantile Exchange apparently consider-

ing options of its own.

HOOGOVENS, the Dutch state-owned steel group expected for privatisation, has achieved increased profits for 1985 despite reduced steel output.

Crude output at the main IJmuiden plant dipped to 5.3m tonnes last year from the 5.5m tonnes of 1984. But overall group profits improved against the 1984 result of F1 206.5m (\$76.5m) after tax.

The 1984 result allowed Hoogovens to pay its first dividend for eight years. The company ran up losses amounting to F1 1.3bn between 1973 and 1982 and turned in a further deficit of F1 38m for 1983.

Hoogovens gave no forecast for current-year profits but is confident about the future following the success of the restructuring plan of the past two years.

• Stahlwerke Peine-Salzgitter, the steel arm of the state-owned Salzgitter group, made a net profit in the year ended September 1985 after posting a net loss of DM 144m (\$60m) a year earlier. However, the profit was not big enough to wipe out the previous year's loss.

European Options Exchange studies oil products move

BY LAURA RAVIN IN AMSTERDAM

primarily at small and medium-sized business customers through established insurance brokers and so aims to hold down overheads. It will also enter the credit guarantee market.

Njord has a share capital of SKR

50m (\$6.5m) - the Arab insurance group of Bahrain owns a 15 per cent stake - and hopes to capture less than 1 per cent of the SKR 5bn Swedish corporate insurance market this year.

Njord will market policies aimed

at

AP-DJ

Hoogovens boosts profit to F1 206.5m

By Our Financial Staff

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New Swedish insurer

BY DAVID BROWN IN STOCKHOLM

SWEDEN'S troubled insurance sector has seen the entry of a new company, Försäkrings AB Njord, which is concentrate on the property, corporate and transport sectors.

Njord, the first such company to be established in Sweden for over 40 years, hopes to compete by offering cheap insurance when most big groups, among them Skandia, Försäkrings AB Njord, and Trygg-Hansa, have had to raise premiums in the face of sharply deteriorating earnings.

The group's main export markets are Europe and southeast Asia.

Yamanouchi to list in Paris

TOKYO: Yamanouchi Pharmaceutical, a leading Japanese pharmaceutical concern, is to be listed on the Paris Stock Exchange in April.

The move will make it the first Japanese pharmaceutical company to be listed on the exchange. Yamanouchi is seeking to internationalise its operations and is considering building a production facility in France to produce anti-ulcer agents.

The group's main export markets are Europe and southeast Asia.

AP-DJ

These securities having been sold, this announcement appears as a matter of record only.

November 1985

New Issue

Lloyds Bank Plc

(Incorporated in England with limited liability under the Companies Act 1962 and the Companies Act 1985)

U.S. \$500,000,000

Primary Capital Undated Floating Rate Notes (Series 2)

Lloyds Merchant Bank Limited

Bank of Tokyo International Limited
Barclays Merchant Bank Limited
County Bank Limited
Credit Suisse First Boston Limited
Goldman Sachs International Corp.
LTCB International Limited
Morgan Guaranty Ltd.
Nomura International Limited
Shearson Lehman Brothers International
Swiss Bank Corporation International Limited
S. G. Warburg & Co. Ltd.

Algemene Bank Nederland N.V.
Australia and New Zealand Banking Group Limited
Bank of China, London Branch
Banque Nationale de Paris
Baring Brothers & Co., Limited
Creditanstalt-Bankverein
Dai-Ichi Kangyo International Limited
First Interstate Capital Markets Limited
Generale Bank
HongkongBank Limited
Kleinwort, Benson Limited
Manufacturers Hanover Limited
Mitsui Trust Bank (Europe) S.A.
Morgan Grenfell & Co. Limited
The Nikko Securities Co., (Europe) Ltd.
Saitama Bank (Europe) S.A.
Saudi International Bank
Société Générale
Tokai International Limited
Wood Gundy Limited

Bankers Trust International Limited
Commerzbank Aktiengesellschaft
Crédit Lyonnais
Dresdner Bank Aktiengesellschaft
IBJ International Limited
Merrill Lynch Capital Markets
Morgan Stanley International
Orion Royal Bank Limited
Sumitomo Finance International
Union Bank of Switzerland (Securities) Limited

Arab Banking Corporation (ABC)
BankAmerica Capital Markets Group
Banque Bruxelles Lambert S.A.
Banque Paribas Capital Markets
Citicorp Investment Bank Limited
Crédit Commercial de France
Daiwa Europe Limited
Fuji International Finance Limited
Hambros Bank Limited
Kidder, Peabody International Limited
Kreditbank International Group
Mitsubishi Finance International Limited
Samuel Montagu & Co. Limited
The National Commercial Bank Saudi Arabia
Nippon Credit International (HK) Ltd.
Sanwa International Limited
J. Henry Schroder Wag & Co. Limited
Takugawa International Bank (Europe) S.A.
Westpac Banking Corporation
Yamaichi International (Europe) Limited



Standard Chartered

Standard Chartered Finance B.V.
(Incorporated with limited liability and established at Amsterdam in The Netherlands)

US\$200,000,000 Guaranteed Floating Rate Notes 1994
Guaranteed on a subordinated basis as to payment of principal and interest by

Standard Chartered PLC

(Incorporated with limited liability in England)

In accordance with the provisions of the Notes, notice is hereby given that for the six months period (181 days) from 8th January to 8th July, 1986, the Notes will carry interest at the rate of 8% per cent. per annum.

The interest payment date will be 8th July, 1986. Payment which will amount to US\$414.79 per US\$10,000 Note, will be made against surrender of Coupon No.5.

J. Henry Schroder Wag & Co. Limited
Agent Bank

U.S. \$300,000,000



Crédit Lyonnais

Floating Rate Notes Due 1994

Interest Rate 8 3/4% per annum
Interest Period 8th January 1986
8th July 1986
Interest Amount per U.S. \$10,000 Note due 8th July 1986
U.S. \$421.08

Credit Suisse First Boston Limited
Agent Bank

FT INTERNATIONAL BOND SERVICE

The list shows the 200 latest international bond issues for which an adequate secondary market exists. The following are closing prices for January 7.

U.S. DOLLAR STRAIGHTS

Issued Bid Offer day week Yield

America 10% '82 100 100 1/2 100 1/2 8.50 10.30

America Credit 10% '82 100 100 1/2 100 1/2 8.50 10.30

America Travel 10% '82 200 200 1/2 200 1/2 8.50 10.30

Australia Com 11% '80 200 200 1/2 200 1/2 8.50 10.30

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INTL. COMPANIES & FINANCE

Sears subsidiary acquires 20% stake in Hagemeyer

BY DAVID DODWELL IN HONG KONG

SEARS WORLD TRADE, a subsidiary of the US retail group, yesterday completed its US\$30m deal by which it will take a 20 per cent stake in Hagemeyer, the Netherlands-based trading subsidiary of Hong Kong's First Pacific International.

The deal has been under negotiation since July last year. As well as subscribing to new shares in Hagemeyer at a cost of £15.5m, Sears will acquire a majority interest in some of Hagemeyer's subsidiaries for \$14.5m, and will pay \$6m to refinance "certain intercompany accounts" in Hagemeyer.

In September, First Pacific International announced losses amounting to \$3.3m for the first half of 1985. These were largely due to the poor performance of

Hagemeyer, which accounts for over 90 per cent of First Pacific International's turnover. The deal is part of an attempt to reduce group dependence on commodities trading. First Pacific's stake in Hagemeyer fell from 69 per cent to 55 per cent on completion.

First Pacific International is the trading and distribution arm of First Pacific Holdings, which is controlled by the Liechtenstein family and associates in Indonesia. It has had troubles linked with Hagemeyer since it took control of the 85-year-old group almost five years ago.

In 1982, US customs officials investigated whether coffee shipments arranged by a Hagemeyer subsidiary had entered the US in violation of the international coffee agree-

Japan lifts guaranteed foreign bond ceiling

By Yoko Shikata in Tokyo

THE JAPANESE Ministry of Finance decided on Tuesday to set the ceiling on issuance of government-guaranteed foreign bonds in fiscal 1986 rising April at Y560bn (\$2.77bn), up Y60bn over the current year. The increase reflects the inclusion of subway construction and sewerage system projects by the Tokyo Metropolitan Government into the nation's domestic demand expansion package, as well as a bond issue by the Kobe Municipal Authorities.

The Tokyo Metropolitan Government plans to float Y50bn of bonds, including Y100m worth in the US—the first such issue in 22 years. The cities of Kobe and Yokohama plan to float Y100m of bonds each.

Issuers will also include Japan Development Bank with Y123bn, Japan Air Lines (JAL) with Y80bn and the Export-Import Bank of Japan with Y55bn.

The MOF plans to amend its guidelines to increase issues in the Euromarket and that the US market is a shift from the previous emphasis on the Swiss market.

Ceilings on government-guaranteed foreign bond issues have increased steadily from Y154bn in fiscal 1981 to Y219bn in 1982, Y409bn in 1983, and Y603bn in 1984. The fall in the current fiscal year to Y560bn was caused by Nippon Telegraph and Telephone (NTT), usually a large issuer, and the Bank of Japan not floating such bonds.

JAL to pass dividend payments

BY OUR TOKYO STAFF

JAPAN AIR LINES, the national flag carrier will pass its dividend payments for the current year to March. In his New Year's address Mr Susumu Yamaji, JAL's new president, said the company would find it extremely difficult to secure the funds needed for dividend payments. He also said JAL would barely be able to break even in the year to March 1987.

Mr Yamaji's remarks indicated that the crash of JAL flight 123 last August, which killed 260 people, requires heavy expenditure. They also reflect the impact of moves by passengers away from JAL after the worst single plane accident

in aviation history. After the August crash, JAL revised downwards its pre-tax profits projections for the current year to Y7.3bn from the initially forecast Y21.5bn, but it now seems that JAL will find it hard to achieve even the revised target.

JAL suffered a 25 per cent decrease in domestic passengers in the quarter to December. In the peak year-end and new year period, there was an 11.5 per cent fall in domestic passengers, while All Nippon Airways and Toa Domestic Airline managed to equal the previous year's record.

After skipping dividend pay-

ments in fiscal 1982 and 1983 after a plane crash off Tokyo International Airport at Haneda in January 1982, JAL made dividend payments in 1984.

Mr Kaoru Ii, the president of Sanyo Electric Company is prepared to resign to take responsibility for the marketing of faulty oil heaters blamed for four deaths and 41 cases of illness from carbon monoxide poisoning, AP-DJ reports from Tokyo.

The president of the major home electric appliance company will offer his resignation to shareholders at a general meeting in February, the company said.

John Elliott on a London-based businessman's troubles in India

Swraj Paul withdraws from share battle

MR SWRAJ PAUL, a London-based Indian-born businessman who has been fighting a controversial company share transfer battle in New Delhi for the past three years, has decided to reduce his personal involvement in India.

This follows both a boardroom setback in his attempt to buy shares in Escorts, a New Delhi engineering and automotive company, and a tussle with his Calcutta-based brothers over the management of a \$50m (\$761m) worth of chemical and fertiliser projects being promoted by the Paul family in India.

Yesterday, shortly before he left for London at the end of a three-week holiday in India, Mr Paul said for the first time that he was prepared to sell stakes of 71 per cent and 13 per cent he bought early in 1983 for \$8m in Escorts and in DCM (formerly Delhi Cloth Mills), another major New Delhi company. He feels "let down" by the Indian government and public sector financial institutions and said: "If the institutions want me to sell, I will sell."

The decision has come at a time when Mr Paul has been suffering other business setbacks. His Caparo group in the UK has had financial problems with Fidelity, an electronics company it bought 15 months ago. Mr Paul also says he expects to lose \$3m as a result of the closure of the loss-making Nova Park luxury hotel in Paris of which he is a former chairman as well as an investor.

Mr Paul was a close confidante of Mrs Indira Gandhi, the former Indian Prime Minister who was assassinated 14 months ago. He has consistently denied suggestions that he was responsible for investing the money of either the Gandhi family or India's Congress Party abroad.



Mr Swraj Paul, chairman of the Caparo group

His controversial share deals in India started three years ago. He bought shares in Escorts and DCM for his Caparo group using special facilities introduced by the Indian government to encourage investment in India by non-resident Indians living abroad. His holdings equalled or surpassed those of the Nande family which his management control of Escorts and the Shriram family of DCM. His Calcutta brothers' Apeejay tea

and steels company bought small stakes in both companies.

Escorts and DCM refused to register the shares and a major row blew up in 1983 with the Indian industrial establishment fearing the predatory power of rich non-resident Indians.

After lengthy court battles

over the share-purchase, the Indian Supreme Court delivered a judgment last month which was a setback for Escorts. But it failed to clear Mr Paul's share purchases and he endorsed the boardroom authority of public sector financial institutions, which own controlling stakes in both companies.

The main blow to Mr Paul's pride came in the past fortnight when the financial institutions backed the family managements of both DCM and Escorts, even though the share ownership issue is still to be resolved by the Reserve Bank of India following the Supreme Court judgment.

In Escorts, the institutions renewed five-year management contracts for Mr Hari Nande, the founder chairman, and his son, Rajan.

"I am no longer going to try to influence the running of these companies. I am quitting," said Mr Paul, who has accused the families of corrupt and inefficient management.

His dispute, however, is far from over and it seems likely that Mr Paul's brothers in India will continue the battle.

Mr Surendra Paul, the youngest of four brothers and

This announcement appears as a matter of record only.

\$500,000,000

Commercial Paper Program

for

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January 8, 1986

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air separation facility

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December 1985

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Saitama International (Hong Kong) Limited
(Incorporated in Hong Kong)

US \$100,000,000

Guaranteed Floating Rate Notes Due 1995

Holders of Floating Rate Notes of the above issue are hereby notified that for the second Interest Period from 8th August, 1985 to 7th February, 1986 the accumulated interest amount payable is US \$412.02 per US \$10,000 nominal.

Agent Bank
Bank of America International Limited

European Economic Community

Floating Rate Notes Due 1990

Interest Rate 8 1/16% per annum

Interest Period 8th January 1986
8th July 1986

Interest Amount per
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All of these Securities having been sold, this announcement appears as a matter of record only.

December 11, 1985

3,500,000 Shares

Paine Webber Group Inc.**Common Stock**
(**\$1 par value**)

PaineWebber
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Bear, Stearns & Co. Inc. The First Boston Corporation Alex. Brown & Sons Daiwa Securities America Inc. Deutsche Bank Capital Corporation

Dillon, Read & Co. Inc. Donaldson, Lufkin & Jenrette Drexel Burnham Lambert A. G. Edwards & Sons, Inc. Goldman, Sachs & Co. Securities Corporation

Hambrecht & Quist E. F. Hutton & Company Inc. Kidder, Peabody & Co. Incorporated

Merrill Lynch Capital Markets Montgomery Securities Morgan Stanley & Co. Incorporated

Nomura Securities International, Inc. Prudential-Bache Robertson, Colman & Stephens L. E. Rothschild, Unterberg, Towbin Securities

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INTL. COMPANIES & FINANCE

Hong Kong's 'red capitalist' shrugs off a political role

BY DAVID DODWELL IN HONG KONG

WANG GUANGYING, China's "red capitalist," is dedicating 1986 to "talking less and doing more." The policy is Peking's, and was declared by the People's Daily to be the nation's new year resolution, but is particularly appropriate for the man who has had more than his share of controversy and political firelighting since establishing China Everbright in Hong Kong two years ago.

For many, Wang represents much of what Deng Xiaoping, China's pragmatic leader, is trying to achieve as he tries to undo the damage of decades of political upheaval, puts greater emphasis on economic growth, and opens the country up to the outside world. As a "red capitalist," he embodies the logic of—and contradictions in—the policy of "one country, two systems" that is being used as a basis for reunifying the mainland with Hong Kong, Macao and Taiwan.

Since he established China Everbright in April 1983, his every move has been dissected by local political and business groups, which see his presence as more political than commercial. China has been helpful to Wang Guangying, says his business deals have not had him in his way had partners not been convinced of his influence in Peking. But it has also hampered him. "People treat me differently from an ordinary businessman, and I think this is unfair," he complains.

But, Wang Guangying is not an ordinary businessman. Born in 1919 in Peking, the son of a minister in the Government of the northern warlords, he studied chemistry at Peking's Catholic Fudan University.

From the earliest stage, there was a strong international influence on his family. The "Ying" in Wang Guangying's name is a contraction of the Chinese word for England, and reflects the fact that he was born when his father was passing through London on the way to a peace conference in Paris on behalf of his government. His younger sister, Wang Guanglei, draws the "mel" in her name from the contraction for America. This time the conference had been in Washington.

Even as a raw graduate, Wang Guangying was bent on an entrepreneurial career. He used the 2,000 Chinese dollars left over from his wedding in 1943 to set up a business in Tianjin

in partnership with a friend: "I wanted to modernise China by setting up this chemicals factory," Wang recalls.

By 1954 Wang Guangying was

set on a political as well as entrepreneurial career, he was appointed vice chairman of the China Democratic National Construction Association, the country's main body for one-time entrepreneurs, and a deputy to the National People's Congress.

His standing was doubt enhanced by the fact of his sister's marriage to Liu Shaoqi, who was to become Mao Zedong's second-in-command soon after liberation.

While other factory bosses were being thrown out and re-educated, Wang went unscathed. "I didn't suffer because I could hear from officials directly from Liu Shaoqi, Zhou Enlai and Mao himself."

Wang's own nightmares began with the Cultural Revolution,

when Liu was thrown out by Mao, vilified as a "renegade, traitor and scab."

Big character posters in Peking demanded "Kill Wang Guangying, pull out Liu Shaoqi, make Wang Guangmei stink!" Wang was thrown into Peking's Qingchong prison

(where the gang of four are now incarcerated) and spent most of the next eight years in solitary confinement.

"I spent a lot of time watching the spiders spinning webs in one corner of my cell. Do you know it takes 14 days for a spider's egg to hatch?"

When he was released in 1975, Wang was restored to high office by Deng Xiaoping, soon to become vice chairman of the All China Federation of Industry and Commerce, a position he still holds today. "Looking back at the days of the cultural revolution, they were ridiculous," he says. "Nearly 100 people suffered during that time, either directly or indirectly, but it is difficult to settle accounts. The most important thing is to learn a lesson and prevent it from happening again."

Through Everbright, Wang

Guangying is doing just that.

It is hardly surprising that Hong Kong people refuse to see him and his company as they would most others in the territory.

Everbright is intended to be

China's first "trans-national corporation."

It has a New York office, auspiciously on the 88th floor of the World Trade Centre, and is seeking offices

in Europe. It has a general

agency in Peking and offices in Wuhan, Guangdong, Tianjin and Zhuhai.

Unlike other Chinese enter-

prises set up in the territory, which are extensions of businesses on the mainland, Everbright is a wholly local creation. Despite an initial impression that it was going to branch into all areas of Hong Kong's economy, it has after two years settled into the role of middle man and trader. "We act as an organiser," Wang says. "We find funds, act as an introducing

business is unlikely to generate significant profits for many years. Of 20 projects in China, most are linked with infrastruc-

tural development.

Wang Guangying insists that these deals are exploratory in a China that has stood still for the better part of half a century, they are urgently needed, but would never be profitable, even if Wang was not feeling his way with inexperienced staff. The shortage of well-trained Chinese is by far the greatest limit on growth, he claims.

In Hong Kong, many feel there has been more talk than action. There have been long delays on a major property development in Admiralty, near to the central business district. Most projects in nearby Zhuhai amount to cleared sites and little else.

The company was linked with a contract to build a new cross-harbour tunnel in the territory, but has now washed its hands of the deal. Withdrawal from the property deal with Li Kashin is part of Hong Kong's corporate folklore.

Happy, the group's core business of introducing foreign equipment and technology into China has grown much more rapidly, and is generating most of company profits. Wang Guangying claims Everbright has imported goods worth US \$600m so far. Little of this is noticed in Hong Kong, since it is handled exclusively by Everbright's Peking subsidiary.

In China, they don't call me a capitalist—they call me an entrepreneur trying to do something for his country," Wang says. He is at ease with what many outside see as a contradiction between China's socialist government and the re-emergence of entrepreneurs.

agency, and provide confidence for foreign partners.

"I attach great importance to making calculations, and making profits. If we make a loss, no-one will help us," he insists. Many who initially thought he would perform the dual function of boasting confidence in Hong Kong whenever a political hue and tie the economy, and nurturing projects on the mainland at patriotic prices, have found their views contradicted by several recent business moves.

Most prominent was his controversial withdrawal from a HK\$1bn (US\$128m) deal with property magnate Li Kashin. Early reports of the deal had boosted a flagging property market. Abandonment of it drew accusations of market manipulation and insider dealing which have been the subject of a government tribunal for over a year.

Despite this, much of Everbright's Hong Kong-based

New Issue These Bonds have been offered and sold outside the United States of America. This announcement appears as a matter of record only.

September 1985



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YAMA

TECHNOLOGY

Peter Marsh on efforts to simplify the layout for gate-array devices

Route cause of a chip problem . . .

HOW DO you devise the shortest possible route that takes in the capitals of all 50 US states? That conundrum, known as the travelling salesman problem, has kept mathematicians (and batteries of powerful computers) occupied for decades.

Electronics engineers working with relatively new types of chip called gate arrays encounter similar difficulties. They have to devise ways to link up as many as 3,000 electrical contacts integrated on a tiny chip in such a way that the semiconductor performs a specific set of operations.

In gate arrays, sold by companies such as Fujitsu, Motorola, NEC, Ferranti, Texas Instruments and LSI Logic, chips are produced in a partially completed or "semi-customised" form before having the circuit layout finished to meet specification from the customer.

Each contact on the chip may have to be linked to as many as 20 other points to make the final device suitable for, say, a processing operation in a particular form of product such as an electronic testing system.

For a moderately complicated device, the problem can translate into devising 10,000 different interconnections.

"You can easily get your knickers in a twist," observes Dr Andy Hopper, a director of Qudos, a new company in Cambridge which attempts to simplify the layout process.

BOTH QUDOS's technology and the people behind it are testimony to the network of connections in Cambridge which has made the city Britain's fastest growing centre of small, technology-based concerns.

In particular, Qudos has strong links with Acorn, the Cambridge computer company in which Olivetti of Italy took a majority stake after the enterprise ran into financial difficulties earlier this year.

Mr Peter O'Keeffe and Dr Andy Hopper, two of Qudos's directors, are former directors of the computer company. Also on the design committee's board is Dr Hermann Hansen, Acorn's founder who lost his job as a chairman during the Olivetti take-over but who is still an Acorn director.



Peter O'Keeffe (left) with Dr Andy Hopper and Dr Haroon Ahmed.

dures for gate-array devices with a set of low-cost computer-aided design techniques.

Qudos, backed with a modest investment of about £500,000, plans with these methods to introduce a "do-it-yourself" philosophy into the business of completing the design of gate arrays.

It seeks to disrupt the pattern in which developers of electronic hardware are faced with having to pay large sums to specialised design teams (often from the manufacturers of the gate arrays) to do this job for them.

As a result of low overheads and inexpensive software and hardware methods, Qudos hopes to charge clients "a few thousand" pounds for turning

out on their behalf a batch of chips completed to a specification.

The customer, which would normally be an electronics enterprise employing fewer than 100 people, would do the design work itself, with a £15,000 computer package (see story below).

The bill for the work contracts with the £20,000-£50,000 that an established chip concern would normally charge for completing a gate array in this manner.

In essence, Qudos, which reckons Britain alone contains 5,000 small companies which could use its services and projects an annual turnover in the first year of £750,000, is trying to usher in to the chip business

what home repair kits and expensive power tools have already brought to areas such as car maintenance and decorating.

Moreover, use of gate arrays is a fast growing part of the world's semiconductor industry.

Sales in the developed world total some 250m in 1984, a 50 per cent increase on 1983.

According to some projections, sales may grow fourfold by 1989 to some £2.5bn. That is out of the worldwide market for semiconductors which is currently worth some £15bn a year.

But Qudos may not have chosen the best time to start its business. Sales of semiconductors are dipping and, as a result, established gate-array

companies are cutting their charges for completing the layout on the chip.

The price-cutting has in recent weeks led to the demise of a second UK concern which attempted to operate a similar business to Qudos, Array Logic, set up in Melbourn, Cambridgeshire, a year ago with backing of £4m, has called in the receiver after failing to generate enough business to cover expenses.

A useful Dr Bob Whelan, managing director of the company, said that some gate-array companies, particularly Japanese concerns, were discounting their prices greatly. In some cases, they were doing the final layout for nothing, which made it impossible for Array Logic to compete.

"We wish Qudos all the best," said Dr Whelan. "But they may find they suffer from the same problems."

According to Mr Peter O'Keeffe, Qudos's managing director, his company will aim to recruit as customers smaller companies than Array Logic.

The company is also depending on gaining substantial orders from chip-research groups in universities.

By targeting small concerns which currently do not make much use of gate arrays, Mr O'Keeffe, Qudos's managing director, says some consequences of the price-cutting battles waged by the chip companies.

This is aimed at professionals such as doctors and dentists, for example. It is a step towards the day when photography becomes totally electronic, as has been demonstrated with Sony's Mavics camera.

With the T90, Canon wants to strengthen its position in the SLR market which has been in decline for several years. Only

on the top of the range, where cameras cost more than £200, has been growing.

This sector includes professional and enthusiastic amateur photogra-

phers.

Under Qudos's plan, customers will offer its services will buy a £15,000 package which includes the chip-design software and a scientific work station (high-powered computer) made by Acorn. The price also includes a week-long training course at Qudos's offices.

Several small electronics concerns on the Cambridge science park, where Qudos is based and which has about 50 tenants, are trying out the

company's design software. Qudos thinks that about 30 of the companies could eventually become regular users of the software.

In Qudos's process, electron-beam machines designed by Dr Ahmed's laboratory will do the physical job of completing the interconnections of gate-array chips. Qudos will buy the latter from companies such as Texas Instruments, Ferranti and Philips.

In electron-beam hardware, sharply focused electrons trace a circuit pattern on a chip substrate according to instructions in a computer program. The electrons can "draw" the very fine lines

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Qudos's design software. Qudos thinks that about 30 of the companies could eventually become regular users of the software.

In Qudos's process, electron-beam machines designed by Dr Ahmed's laboratory will do the physical job of completing the interconnections of gate-array chips. Qudos will buy the latter from companies such as Texas Instruments, Ferranti and Philips.

In electron-beam hardware, sharply focused electrons trace a circuit pattern on a chip substrate according to instructions in a computer program. The electrons can "draw" the very fine lines

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UK COMPANY NEWS

Beazer closer to gaining control of French Kier

BY DAVID GOODHART

C. H. Beazer yesterday came closer to taking control of French Kier when it increased its stake in the construction group from 38 per cent to 43 per cent. However, talks over a management structure for the combined company between Mr John Mott, French Kier's chairman, and his counterpart, Mr Eric Beazer, broke up after only 20 minutes, with no agreement.

A statement released on behalf of French Kier said: "Beazer was unable to satisfy the objectives of the board of French Kier with regard to the arrangements for the management of the long-term future of a Beazer/French Kier merged group."

Following the 27 per cent increase in the Beazer offer on

Monday the Bath-based housebuilder will clearly have no trouble taking control but is clearly keen to get a positive recommendation from the French Kier board.

The main stumbling block to such an agreement appears to be divergent views on the role of non-executive directors, and in particular on the role of Mr John Mott, who is himself a non-executive.

French Kier and its advisers, Morgan Grenfell, believe that the presence of heavy-weight outside directors is a necessary influence especially on a company like C. H. Beazer which has grown very fast very quickly.

Mr Mott repeated yesterday

Pepe jumps 54% to £1.9m

GOOD PROGRESS has been made by the Pepe Group in the half year ended September 30, 1985. And the present level of trading gives confidence that the group will enjoy another successful year, says the chairman, Mr Roger Rowland.

The group designs, imports and wholesales men's and ladies' casual wear and jeans. It turnover in the half year shot up from nearly £1.4m pre-tax to £4.3m, while the pre-tax advanced by 54.3 per cent from £1.2m to £1.9m.

Pepe came to the US last March with a forecast of £2.5m profits for the year ending March 31, 1985. In the event the group made £2.63m and paid a final dividend of 15p net - the annual indicated rate was 3p.

As promised, the group is initiating interim dividends and has declared a payment of 15p. Mr Rowland says in the half year the cautious expansion continued in the US with sales rising substantially as customer numbers grew to over 500. All Pepe merchandise was well received, especially the jeans.

The market in the UK was good and sales of all products increased, he reports. The new ranges of casual wear, for ladies

and youths, attracted great interest when introduced and this bodes well for the future.

The first benefits from shoe franchises were received. Pepe Ireland continued to prosper.

The chairman says the new headquarters at Willesden are nearly completed, and the group will be installed by the end of this month.

After tax £829,000 (£545,000) and minority £14,000 (£13,000) the net attributable profit for the half year came out at £1.02m (£645,000). Earnings are shown to be 4.5p (3.6p) per share.

Comment

The unfashionability of fashion stocks gave Pepe's shares a serious battering immediately after the company's flotation last March, but the combination of last year's strong full-year results and yesterday's interim has restored confidence to the point where the shares are most of the way back to their 100p issue price.

The absence of any geographical or product break-down at the half-way stage leaves the precise source of the profits growth a bit of a mystery, but it seems to be an

all-round affair. Pepe continues to defy the gloomy trend for denim and enjoyed better-than-expected results for its quality jeans both at home and abroad, while its cautious approach to the US market and its abstention from the temptations of retailing seem to have saved it from the misfortunes which have afflicted French Connection and Cecil Gee. Some 3.5m is probably well within reach for the year, putting the shares, up 11p at 56p, on a prospective p/e ratio of under 11 after a 44 per cent tax charge. With continued growth in prospect from the launch of women's and children's ranges, the rating still looks undemanding.

BHS-Habitat unconditional

The £1.2bn merger between Habitat-Motherscare and British Home Stores has been declared unconditional. By Monday afternoon acceptance of the offer had been received for 56.9 per cent of BHS shares and 72.05 per cent of Habitat's. The offer will remain open until further notice.

Salomon Brothers Inc is pleased to announce the opening of its

Zurich Office

**Stadelhoferstrasse 22
8024 Zurich, Switzerland**

Telephone (01)251-5137 Telex 816755

**George P. Hutchinson
Managing Director**

Salomon Brothers Inc

**LADBROKE INDEX
1,137-1,141 (-8)
Based on FT Index
Tel: 01-427 4411**

New issue
January 6, 1986

All these Notes having been sold, this announcement appears as a matter of record only.

DnC Den norske Creditbank

DM 250,000,000

Floating Rate Notes of 1986 (1996)

**WESTDEUTSCHE LANDESBAHN
GROZENTRALLE**

BANK BRUSSEL LAMBERT NV.

**BAVARIISCHE HYPOTHEKEN-
UND WECHSEL-BANK
Aktiengesellschaft**

COPENHAGEN HANDELSBANK A/S

DEN NORSKE CREDITBANK

**FUJI INTERNATIONAL FINANCE
Limited**

**LTCB INTERNATIONAL
Limited**

MITSUI TRUST BANK (EUROPE) S.A.

**SVENSKA HANDELSBANKEN
GROUP**

MORGAN STANLEY INTERNATIONAL

BANKERS TRUST GMBH

**BANK OF TOKYO (DEUTSCHLAND)
Aktiengesellschaft**

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CREDIT LYONNAIS

**DAWA EUROPE
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Aktiengesellschaft**

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**MITSUBISHI FINANCE INTERNATIONAL
Limited**

MORGAN GUARANTY GMBH

NOMURA EUROPE GMBH

**THE TAIYO KOBE BANK
(LUXEMBOURG) S.A.**

**YAMAUCHI INTERNATIONAL
(DEUTSCHLAND) GMBH**

Asprey surges to £5.55m at six months

GROWTH AT Asprey gathered pace through the first six months of the year, and at the pre-tax level profits showed an improvement of £2.26m to £5.55m.

Mr John Asprey, the chairman, says the results were unusually high and reflected a number of unusual transactions effected during the period.

He tells shareholders that business remains buoyant and adds that as he indicated in his 1984-85 statement a substantial improvement in trading levels is expected for the current year as a whole.

Asprey's cash offer of 285p a share values French Kier at £14m with the share offer of 21.3p each for every 11 French Kier shares valuing each share at 235p, 7p above last night's closing price of 235p.

For the six months under review (to September 30 1985) the London-based jeweller and antique dealer saw its turnover surge from £13.26m to £22.16m.

Trade profit for the period was £2.26m to £5.55m.

The interim dividend is being lifted from 2.35p, adjusted for last year's two-for-one script, to 3.5p net.

The costs incurred by the company in launching the scheme for the repurchase of its own shares amounted to £20,000 and was charged as an extraordinary item.

Last November the New York store completed its move into larger premises on Fifth Avenue and the initial trading results described as encouraging by Mr Asprey.

The 1984-85 year was a record for the group. Turnover pushed ahead by only 3.38 per cent to £23.2m but the pre-tax level of profits advanced by 22 per cent to £7.37m.

Asprey's ordinary shares are traded on the Unlisted Securities Market.

Comment

The market was better pleased with Asprey's results than it would have been with a gift of the chosen piece of jewellery. Reverting to the news of a 55.5 per cent profit increase, the share price rose by 45p to 485p, edging about £3m to the value of the company. Apparently it does not take many of the mega rich to walk into Asprey and buy a "substantial item" (ie worth over £200,000) to make a double impact on the company's results.

It's a good way of raising the profile of a company, said Mr Whittle, of stockbrokers L. Messel, advisers on three of recent tenders.

When the tender was first introduced in the UK it enjoyed a run of success. However, of three offers made last year only

Glenn's was successful.

The failure of those launched by British Land, the property group, and C. H. Beazer, the group's founder, may cast doubt on its effectiveness.

Style, the retailing group which was British Land's target, was saved by purchases of its shares by Town Centre Securities.

The aim was to guarantee fair treatment for all shareholders since small investors were inevitably left out when raids were mounted.

The tender rules laid down

Glen bitter over Hillsdown stake

BY FRANK KANE

Hillsdown Holdings yesterday announced that its recommended offer for Pyke Holdings had been accepted by holders of nearly 50 per cent of the shares held by Hillsdown, its controlling shareholder.

The level of Pyke acceptance - 44.16 per cent was added to Hillsdown's existing holding of 22 per cent stake

Pyke's tender offer was a surprise because of the discount to the cash value of

Glen's successful tender, which had seemed to put a brake on the all-share bid; and because Pyke's shares have traded consistently above the value of the offer.

They closed last night at 425p, down 15p on the day, against an implied value of 411p.

Mr Terry Ramsden, Glen's chairman, said: "It is incredulous to me that a few institutions who handle public money can accept paper at a discount to the cash value of

stock in the open market. I can only reiterate to shareholders not to accept, but to take advantage of the disparity."

For Hillsdown, joint chairman Mr Harry Solomon, said:

"Perhaps they (the acceptors) have got a lot of confidence in our shares. Truthfully, I have no other explanation."

He announced that the offer was extended until January 20.

The bid appears to be approaching a form of stale-

mate. Hillsdown seems likely to get a simple majority, but has ruled out any increase in the terms to attract other large institutions. It is understood that some of these sympathise with the Glen position, and could form a substantial dissident minority if Hillsdown were to go unconditional at 50 per cent.

"This is an equally divided situation," Mr Ramsden said last night. "I don't think it's last night yet."

Charles Batchelor on a growing City trend in takeover tactics

Getting caught up in the tender trap

TENDER OFFERS AND THEIR OUTCOME

Date	Offeror	Shares gained %	Target	Outcome
Dec 85	Glen Int'l.	16.9	Pyke Holdings	Succeeded
Oct 85	C. H. Beazer	25	SGB Group	Failed
Jan 85	British Land	25.7	Style	Failed
Feb 85	RTZ	14.9	Enterprise Oil	Succeeded
June 84	Atlanta Inv.	29.9	Country Gent's Association	Gained 11.5%
Sept 83	Howley Group	9.8	Carillion	Succeeded
Feb 83	St. Piran	—	Western Prop.	Succeeded
Nov 81	Barth & Portland	15	Brahmin Millar	Succeeded
June 81	Aflenz	15	Eagle Star	Gained 13.2%

Two important refinements have been made to the tender since its inception. They are:

• The distinction between on and off-market tenders. On-market tenders require the bidder to advertise its intentions more openly. Off-market tenders are approached by bypassing the stock exchange floor.

Off-market tenders may carry a share alternative as well as the traditional cash offer. They also permit the bidder to make a relatively high minimum bid level on acceptance. On-market tenders may not set a minimum limit higher than 5 per cent of the equity, but many bidders went more than that.

The off-market tender was pioneered in early 1983 by Mr Jim Raper, a perennial thorn in the side of the City.

St. Piran, his mining and house-building group, bought 16.5 per cent of Westminster Property Group and launched a tender for a further 6.3 per cent.

The ban then in place preventing Mr Raper from dealing with the City forced him to launch an "off-market" tender, advertising directly to shareholders without going through the Stock Exchange.

• The top-up option. This guarantees accepting shareholders an additional payment if their bid is subsequently made for the target company and has been a feature of the last two tenders — Beazer for SGB and Glen for Pyke.

"Soon nobody will be able to make a straight tender," said Mr Whittle. "Everyone will expect a top-up."

But whatever subtleties emerge in future the tender appears to have established itself as a useful market tool.

ties, a company chaired, like Style, by Mr Arnold Ziff.

Pyke's tender for SGB, the scaffolding group, was overtaken by a full takeover bid from BETT.

"Everyone told us we would fail," said Mr Michael Gibbs, deputy managing director of London-based investment bankers, Alexander & Co.转向 Glen. "We wanted to see why they had not succeeded."

Glen and its bankers calculated the price would have to be pitched

Yes, you've told us how badly Distillers is run, but what makes you think you could do better Mr. Gulliver?

GULLIVER

The changes that are necessary at Distillers are so far reaching, they can only be introduced from the outside. We've done this already with a similar company - Allied Suppliers, which we bought in June 1982.

They were, in some respects, the "Distillers" of the grocery trade, a very large company that had grown by amalgamations, but whose market share had been sliding downhill for years. People expressed doubt whether Allied's business could be improved.

Profits last year were 240% of profits three years ago. Our share price has more than doubled in the last 18 months.

QUESTION

But Distillers' stock market value is 2½ times Argyll's. Aren't you biting off more than you can chew?

GULLIVER

No. Allied Suppliers was also 2½ times our size when we bought them. Yet we started to produce improved results almost straight away.

Nearly all Argyll Foods management are from Allied Suppliers. We provide the strategy and direction; they run the business. In the same way, we will identify the existing skills in Distillers, and give their management the leadership they require.

QUESTION

Your reputation has been made in the fast-moving retail trade. How does this qualify you to nurture famous whisky brands?

GULLIVER

Our prime skills are in marketing and in general management. These skills can both be applied to diverse businesses. Our record proves this. Our senior executives have backgrounds in companies like Unilever, Procter & Gamble, Mars, and Beecham: some of the most successful marketing companies in the world. We understand long-term business building and world brand marketing. It is this kind of marketing skill that we will bring to Distillers.

But more importantly, we will bring the strategy and direction required to build Distillers into an international drinks business with a much broader base.

QUESTION

You claim to be able to revitalise Distillers. But how successful is your own Argyll drinks business?

GULLIVER

How do you measure success? We've taken our drinks business from £100,000 profit in 1980 to over £10 million profit last year. Return on shareholders' funds has increased from 3% to 34%.

Last year, Distillers Company (Home Trade) showed £0.5 million profit on their sales of £121 million. We made £1.3 million profit on our home trade sales of just £30 million. If we could do that when our lead product is a regional rum, imagine what we could do with the famous names like Haig, Dewar's and Johnnie Walker.

QUESTION

You've run businesses in Britain. But what do you know about international markets?

GULLIVER

I have had direct experience in North America since 1971, when I became responsible for retail interests there, in addition to being Chairman and Chief Executive of Fine Fare here.

In 1982 we bought Barton Brands, a Chicago based drinks company, and built upon their traditional business of bourbon and Scotch whisky. For instance, we developed Corona Extra, making it the fastest growing imported beer in the United States.

Distillers make a lot of their performance in the United States. But it has all been achieved by local distributors, not by them. It wasn't till 1984 that they decided to buy one of these distributors, paying some \$250 million mainly for the right to distribute their own brands.

QUESTION

Argyll has achieved its growth by acquiring companies - How do you answer that?

GULLIVER

We have a reputation for making good acquisitions, but our profits come from making these prosper. For instance, in our food business, since 1982 we've increased profits from £18 million to £44 million - with only £2 million of this resulting from acquisitions.

QUESTION

It is said you not only buy companies - but you also sell them.

GULLIVER

In the past 4 years we've sold peripheral activities for a sum of £17 million. That represents only 2% of the current market value of the Argyll Group.

Looking at Distillers, we don't see why they need seven prestigious offices in London's West End. We may sell some of those. But we certainly won't be selling any of Distillers' valuable brands or businesses. We want to build up Distillers' business - not take it apart.

QUESTION

What makes you so confident you will make money for Distillers' shareholders?

GULLIVER

Because it will be in the interests of our management to achieve this. Argyll directors are committed to our company's success. We own a total of £27 million worth of shares in Argyll and 180 of our senior management participate in a stock option scheme, with an average of 30,000 shares each. We all have a very powerful motivation to succeed - as will Distillers' executives with our management.

QUESTION

Shareholders are being bombarded with circulars. Is there to be any let up?

GULLIVER

The shareholders have my sympathy. But we hope soon to be able to reduce these mailings to two a year - telling Distillers' shareholders about their dividends and earnings.

Argyll. We can revive Distillers' spirits.

Notice of Issue
This advertisement is issued in compliance with the requirements of the Council of The Stock Exchange.
Application has been made to the Council of The Stock Exchange for the undermentioned Stock to be admitted to the Official List.

MID-SUSSEX WATER COMPANY

(Incorporated in England in 1898 by Act of Parliament)
Authorised Share and Loan Capital £30,000,000

OFFER FOR SALE BY TENDER OF

£4,000,000

8½ per cent. REDEEMABLE PREFERENCE STOCK, 1996

(which will mature for redemption at par on 31st March, 1996)

Minimum Price of Issue £100 per £100 Stock
yielding at that price, together with the associated tax credit at the current rate, 21.75% per cent.

LAST DAY FOR RECEIPT OF TENDERS

Wednesday, 15th January, 1986

(not later than 11 a.m. at Close Registrars Limited, 36 Great St. Helens, London EC3A 6AF) together with a deposit of 10 per cent. of the nominal amount of Stock tendered for.

The balance of the purchase money is to be paid on or before 26th February, 1986

AN AUTHORISED INVESTMENT FOR TRUSTEES IN THE NARROWER RANGE

Copies of the Listing Particulars, on the terms of which alone Tenders will be considered, and Tender Forms will be available, for collection only, during normal business hours on 8th and 9th January, 1986 from the Company Announcements Office of The Stock Exchange, London EC2. Copies may also be obtained during normal business hours on any weekday (Saturdays excepted)

Mid-Sussex Water Company, 4 Church Road, Haywards Heath, Sussex RH16 3DX, from Close Registrars Limited, 36 Great St. Helens, London EC3A 6AF or from

DENNIS MURPHY, CAMPBELL & COMPANY

2 Russia Row, London EC2V 8BP

8th January, 1986

Abridged Particulars

ALTHOUGH THE strength of sterling had an adverse impact, the London Investment Trust has lifted its first-half profit from £1.5m to £2m.

The group has interests in commodity clearing and broking and financial services. The directors say they are pleased with the profit increase taking into account the strength of sterling, as the majority of the group's income continues to arise in dollars.

They are lifting the interim dividend from 6.4dip to 6.6dip net, and expect to at least maintain the final of 6.72dip. In the year ended March 31, 1985 the group's pre-tax profit topped £16.3m.

In the first half of the current year, to September 30 1985, turnover advanced from £11.47m to £16.3m.

Shatkin Trading lifted its earnings management position as a leading futures clearing and broking house in the Chicago exchange, but its profit margins are lower because of a change in the mix of the business and the intensely competitive nature of the industry over the last year.

However, Shatkin remains well placed to take advantage of changes in the markets as and when they occur.

Rialor Shatkin Securities Corporation, the US securities clearer and broker, has taken more than 50 per cent. to achieve the development envisaged at the time of the acquisition a year ago, and incurred a small loss.

But current indications are encouraging, the directors say, and in view of the seasonal trend it is reasonable to expect that this company is expected to make a "meaningful contribution" to second half results.

In the UK Bailey Shatkin has returned to profitability and is currently showing indications of substantial growth again. The directors say this is most encouraging in view of the declining volumes in most London markets apart from LIFFE.

After tax £793,000 (£798,000) the half year net profit was through at £1.5m (£1.1m) per earnings of £135p (£13p) per share.

● comment

If the shares of London Investment Trust are still suffering from the loss made two years ago on its UK commodity business, these results—about 24m per share target for the full year

are likely to help. However most of its troubles are not of the company's own making. With about three-quarters of its profits made in the US, the fall in the dollar has inevitably been damaging. While the Chicago futures business is no longer growing at breakneck speed, the market is still strong in spite of others in the market are folding under competitive pressure is encouraging. More worrying is the loss made by the US securities clearing subsidiary bought in 1984, although this could still meet its profit target for the full year

and with a yield of 6.8 per cent.

BOARD MEETINGS

The following companies have notified dates of board meetings to The Stock Exchange. Such meetings are usually held for the purpose of considering the annual accounts and dividends available as to whether the dividends are interim or final and the shareholders or finalists are based mainly on last year's timetable.

TODAY

Intertech: ASDA-MFI, Bexley, Hollis,

TH City of London Trust,

Thames Abattoir Properties Investments,

Ashdown Investment Trust, Hoggett

Gowers, M & G Dual Trust, Pancon

International, Tritton, Wardle Stores,

Intersil: ...

Hillier: ...

</div

Financial Times Wednesday January 8 1986

Scotlife Life Investments

19 St Andrews Square, Edinburgh

031-225 2211

Proprietary

Din Lloyds

América Latina

Pacific

International

Private

Investment

Life

Investment

Dividend

Dividends

Pension

Pensions

INDUSTRIALS—Continued									
1985-86									
Hops	Low Stock	Price	+ or -	No.	Stk	PE	Y/Y	Y/Y	Y/Y
170	110	124	-10	6	67	67	71	71	64
180	110	124	-10	6	67	67	71	71	64
194	110	124	-10	6	67	67	71	71	64
195	110	124	-10	6	67	67	71	71	64
220	182	Morgan Crucible	222	22	124	124	124	124	124
131	91	Morrisons W.H. Ltd.	222	22	124	124	124	124	124
181	60	Myers Grp 100	122	22	124	124	124	124	124
214	120	Myers' Dividends	122	22	124	124	124	124	124
48	15	Myers & Sonner Div.	122	22	124	124	124	124	124
141	14	Newman Inds. Up.	122	22	124	124	124	124	124
271	20	Newton Bros.	51	34	124	124	124	124	124
67	45	Newsom Grp	52	32	124	124	124	124	124
114	68	Newtown Grp	52	32	124	124	124	124	124
75	12	Nextel & Elect.	225	-3	173	124	124	124	124
56	36	Newspaper Div. 100	225	-3	173	124	124	124	124
121	22	Newton 11	225	-3	173	124	124	124	124
124	124	Nextcar Car 100	225	-3	173	124	124	124	124
125	124	Nextcar Car 100	225	-3	173	124	124	124	124
113	113	NSM Int'l. Co.	225	-3	173	124	124	124	124
115	115	NTT Systems 50.0	193	-1	184	124	124	124	124
123	123	NPAC Sales 100	45	21	124	124	124	124	124
124	124	NPAC Sales 100	45	21	124	124	124	124	124
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144	144	NPAC Sales 100	45	21	124	124	124	124	124
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146	146	NPAC Sales 100	45	21	124	124	124	124	124
147	147	NPAC Sales 100	45	21	124	124	124	124	124
148	148	NPAC Sales 100	45	21	124	124	124	124	124
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151	151	NPAC Sales 100	45	21	124	124	124	124	124
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156	156	NPAC Sales 100	45	21	124	124	124	124	124
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159	159	NPAC Sales 100	45	21	124	124	124	124	124
160	160	NPAC Sales 100	45	21	124	124	124	124	124
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162	162	NPAC Sales 100	45	21	124	124	124	124	124
163	163	NPAC Sales 100	45	21	124	124	124	124	124
164	164	NPAC Sales 100	45	21	124	124	124	124	124
165	165	NPAC Sales 100	45	21	124	124	124	124	124
166	166	NPAC Sales 100	45	21	124	124	124	124	124
167	167	NPAC Sales 100	45	21	124	124	124	124	124
168	168	NPAC Sales 100	45	21	124	124	124	124	124
169	169	NPAC Sales 100	45	21	124	124	124	124	124
170	170	NPAC Sales 100	45	21	124	124	124	124	124
171	171	NPAC Sales 100	45	21	124	124	124	124	124
172	172	NPAC Sales 100	45	21	124	124	124	124	124
173	173	NPAC Sales 100	45	21	124	124	124	124	124
174	174	NPAC Sales 100	45	21	124	124	124	124	124
175	175	NPAC Sales 100	45	21	124	124	124	124	124
176	176	NPAC Sales 100	45	21	124	124	124	124	124
177	177	NPAC Sales 100	45	21	124	124	124	124	124
178	178	NPAC Sales 100	45	21	124	124	124	124	124
179	179	NPAC Sales 100	45	21	124	124	124	124	124
180	180	NPAC Sales 100	45	21	124	124	124	124	124
181	181	NPAC Sales 100	45	21	124	124	124	124	124
182	182	NPAC Sales 100	45	21	124	124	124	124	124
183	183	NPAC Sales 100	45	21	124	124	124	124	124
184	184	NPAC Sales 100	45	21	124	124	124	124	124
185	185	NPAC Sales 100	45	21	124	124	124	124	124
186	186	NPAC Sales 100	45	21	124	124	124	124	124
187	187	NPAC Sales 100	45	21	124</				

LONDON STOCK EXCHANGE

MARKET REPORT

Account Dealing Dates

First Dealings Last Account
Dealing Dates Dealing Day
Dec 23 Jan 9 Jan 29
Jan 23 Feb 23 Feb 23
Jan 27 Feb 6 Feb 17

* "New-time" dealings may take place from 5.30 am next business days earlier.

The threat of dearer money continued to undermine confidence in London stock markets yesterday. Short-term interest hardened further as the technical factors caused by seasonal tax payments exerted fresh pressure on money markets forcing the authorities to provide large-scale liquidity to relieve pent-up cash short-term payments exerted fresh pressure. The key three-month interbank rate rose to 13 per cent and this was seen to endanger the current level of UK base lending rates at 11 per cent since July.

Slightly more favourable banking statistics — sterling M3 rose only 1 per cent last month — failed to calm investors' fears about higher borrowing costs and both share and bond markets suffered. Blue chip issues encountered early selling but appeared to have weathered storm thanks to the appearance later of cheap buyers. A modest recovery developed but before it could make any lasting impression, the interest rate-sensitive Retail Stores sector ran into aggressive liquidation.

Theories that any rise in either base lending or mortgage rates would reduce consumer spending were a factor and the situation was not helped by a specialist broker taking a cautious view of the sector. This followed unconfirmed reports that Christmas trade may not have been as buoyant as some predictions. Persistent profit-taking brought falls among selected quality Stores and closing prices were generally at the day's lowest. The tone in other market areas became affected and the FT Ordinary share index after looking set at mid-day to establish a slight lead ended the session 6.5 down at 1,135.3.

Gilt-edged securities, too, had another poor day. Currently out of favour with investors and considered as lacking short-term scope, short-dated gilt-edged stocks fell further. The 2.30 pm announcement of the December banking statistics brought a half-hearted recovery but it soon faded to leave conventional Gilts down about 1%. Index-linked issues were not immune but losses in this area were moderate, extending to 1% only. Exchange rate uncertainty — sterling improved against a weak dollar but lost ground on most other leading currencies — remained an unsettling influence.

Barclays react

Barclays fell to 455p prior to closing a net 13 down at 458p following a broker's profits downgrading. The other major clearing banks however, having eased early in sympathy, staged a useful rally and closed with only minor losses on balance. Discount Houses encountered scattered selling. Cater Allen

Equities and Gilts lose more ground on interest rate worries

National shed 7 to 265p. Clive gave up 2 to 33p.

Composite Insurances recovered from early weakness to close with minor falls. General Accident, which announced a vendor placing of 14.3m shares of £1 each, was up 10 to 149p. In Regner and a further gain of 9 to 347p in Brauner. Revived buying lifted Flexelco 10 to 102p. Blue Arrow, still reflecting Press mention, improved 5 more to 648p.

Freeline Boats provided an isolated bright spot in the Leisure sector, rising 5 to 125p in reply to a newsletter recommendation.

Publishers bucked the general trend and again displayed modest gains, albeit in thin trading. Associated Newspapers up of 25p, and Daily Mail, a fraction firmer at 121p, continued to improve in front of tomorrow's full-year figures. Buyers also showed fresh enthusiasm to Associated Books 5 for a two-day gain of 13 to 215p. United Newspapers, on the other hand, lacked support and finished 7 cheaper at 290p. Paper/Printings, in contrast, trended lower with DRG 3 off of 195p and Banz 5 down 6 to 505p. Robert Horne, however, advanced to 163p while the A share added 1 to 112p. The A share, a like amount to the good at 1,535, despite reports of Johannesburg switching from Impala to Rustenburg; the latter settled at 456p.

Apart from Guinness, which reacted 11 to 307p on nervous offerings ahead of today's preliminary results, leading Breweries proved to be relatively restrained. Distillers fell a more modest 10 to 457p, as did the Motor Trade's decision regarding the possible reference to the Monopolies Commission of Argyll Group's offer accentuated recent nervousness. Argyll closed 3 cheaper of 347p.

Leading Buildings, firm of late reflecting optimistic forecasts for the sector, turned easier as interest rate worries receded. Recently-listed Barratt Developments ran back to 180p, while Costain lost the same amount to 473p. Tarmac were

8 lower at 378p and BPE Industries 5 off at 360p. BMC remained overshadowed by reports that the company's pricing policy was under investigation and shed 8 more to 450p. Elsewhere, Bett Brothers, at 80p, lost a penny of the previous day's 10p gain, while its pre-tax expansion in first-half pre-tax earnings was 11 up at 96p. Fitch Lovell, down 3 to 167p, otherwise held its own.

ICI eased to 755p initially before light support left the shares 4 dearer on balance at 746p. Elsewhere in the Chemical sector, Allied Colloids continued to benefit from favourable Press comment and added 3 more to 180p, while potential "shell" National Benzol revived strongly and touched 64p prior to closing a net 4 up at 63p.

Stores weak

Leading Retailers attracted considerable selling as fresh worries over domestic interest rates unsettled confidence. Quotations edged a shade of the lowest after-hours but losses still ranged to over 30. Gossips A were hardest hit and dipped 33 to 75p, while Woolworth, 515p, and Burton 337p, fell 20 to 15 respectively.

It was clear that the proposed merger has been rejected by traditional failer to add 11 to 187p. Another other Experian, which had been trading at 185p, up 8 to 193p, still reflecting recent Press mention, rose to 75p before settling 5 higher on the day at 73p. Elsewhere, DBE Technology rose 12 to 167p. Hillsdale Holdings' offer has been extended until January 20.

Grand Metropoleas met with persistent selling and closed 12 down at the day's lowest of 393p. Ladbroke, however, attracted speculative support and firms to 330p.

Westland continued to attract substantial attention; down to 76p at one stage, the shares rallied late following the announcement of improved terms from the European consortium to close unaffected on the day at 80p. Among other Experian, which had been trading at 185p, up 8 to 193p, still reflecting recent Press mention, rose to 75p before settling 5 higher on the day at 73p. Elsewhere, DBE Technology rose 12 to 167p. Hillsdale Holdings' offer has been extended until January 20.

Another relatively lively session in Traded Options resulted in 14,042 contracts struck comprising 11,175 calls and 2,863 puts. For the fourth successive day, Business was dominated by Lorane, which attracted 2,857 calls, 745 of which were traded in the February 200's and 324 puts. Hansen Trust positions were also in demand and finally contributed 1,355 calls, the March 190's and 260's accounting for 600 and 492 trades respectively.

De Beers up again

Another powerful performance by De Beers, plus strong showings by golds and platinums ensured a marked increase in turnover in mining markets.

FINANCIAL TIMES STOCK INDICES

	Jan 7	Jan 6	Jan 5	Jan 4	Dec 31	Dec 30	Year ago
Government Secs	81.79	88.15	88.51	88.79	88.61	88.82	81.40
Fixed Interest	88.16	88.51	88.79	88.82	88.82	88.82	88.32
Ordinary	1135.3	1141.8	1149.0	1138.5	1131.5	1152.0	971.15
Gold	377.3	397.4	397.5	397.5	394.6	456.2	345.0
Ord. Div. Yield	4.57	4.54	4.53	4.58	4.45	4.45	4.45
Earnings, Pct. 20th	10.86	10.80	10.85	10.88	11.33	11.34	10.50
O/E Ratio (P/E)	11.56	11.43	11.48	11.35	11.34	11.34	10.50
Total bargains (Ext. 285.86)	221.66	104.40	17.98	18.76	16.21	25.67	18.76
Equity turnover (m)	465.77	360.86	232.10	290.91	269.69	550.60	265.70
Equity bargains	87.84	12.86	4.99	16.61	15.42	25.70	12.86
Shares traded (m)	2.47	1.21	1.40	1.49	1.00	2.65	1.49

1 pm 1133.4, 11 pm 1132.0. Noon 1134.2, 1 pm 1135.0, 2 pm 1134.8.

3 pm 1133.2, 4 pm 1134.3. Dye's Nig. 1132.3, Roy's Low 1132.5.

100 Government Securities 15/10/85. Fixed Interest 1928. Ordinary 1/7/36. Gold Mines 12/9/85. BE Activity 1974. Latest Index 01-09-85. "NII" = 10.35.

† Corrected

	HIGHS AND LOWS		S.E. ACTIVITIES	
	1985/6	Since Compl'n	INDICES	1985/6
	High	Low	High	Low
Govt. Secs	84.87	76.03	87.47	81.49
Fixed Int.	80.26	68.17	80.55	76.76
Ordinary	1146.8	211.0	1149.6	104.6
Gold Mines	850.9	817.8	834.7	43.5

1/9/85 1/10/85 1/11/85 1/12/85

1/13/85 1/14/85 1/15/85 1/16/85

1/17/85 1/18/85 1/19/85 1/20/85

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WORLD STOCK MARKETS

NOTES—Prices on this page are as quoted individual exchanges and are last traded prices; suspended, x; Ex dividend, x; Ex scrip issues, x; FV all, e; Price in Schillings.

OVER-THE-COUNTER Nasdaq national market, 2.30pm prices

Digitized by srujanika@gmail.com

Stock	Sales (Units)	High	Low	Last	Cong	Stock	Sales (Units)	High	Low	Last	Cong
Continued from Page 33											
OgilGp	1.05	385	447	447	- 14	RayEn	.24	93	204	224	234 + 14
OneCa	2.80	1396	704	704	- 14	RediCr	.348	275	2	2	2 + 14
OneKt	1.10	122	342	342	- 14	Reading	.79	224	224	224	224 + 14
OneRips	.74	622	374	364	+ 74	Recom	.224	12	115	12	12 + 14
OneSdp	2.60	34	227	222	+ 234	RediL	.54	201	351	354	354 + 14
OneScp	.80	68	259	256	+ 204	Reeves	1.683	124	12	124	124 + 14
OnLine	1.23	114	104	114	+ 14	RgcyEl	.20	417	94	16	16 + 14
OpticC	.93	1454	1424	1424	+ 14	Rogers	.12	51	162	48	5 + 14
OpticR	.563	152	512	512	+ 14	Relata	.189	5	48	5	5 + 14
Orbanc	.27	142	145	145	+ 14	RpAuto	.18	470	97	94	94 + 14
Orbit	.527	74	83	7	+ 8	RpHnt	.156	4288	144	93	93 + 14
OrisCp	2.67	674	51	51	+ 14	RouterI	.156	4	95	95	95 + 14
Oshman	.20	115	164	152	+ 154	ReutriI	.256	2083	304	357	357 + 14
OtrPtr	2.76	51	352	35	+ 354	RayRcy	1.40	120	56	55	55 + 14
OvrExp	12	102	102	102	+ 102	Rhodes	.32	141	184	175	181 + 14
OvmlMs	.28	97	104	172	+ 154	Ribkins	.26	224	74	74	74 + 14
Oxoco	2.66	3%	14	14	+ 14	RichEls	.26	224	217	221	221 + 14
P	O	P	O	P	O	Rival	.50	34	161	161	161 + 14
PNCa	1.32	1353	364	351	+ 358	RossSy	1.10	534	352	344	355 + 14
Pecar	1.40	115	444	444	+ 447	Robotus	.03	35	135	134	135 + 14
PecFst	808	124	124	124	+ 14	RovBsn	RovBsn	RovBsn	RovBsn	RovBsn	RovBsn + 14
PectTel	.80	129	154	154	+ 152	Rouses	.54	1168	262	26	26 + 14
PacoPh	36	179	171	179	+ 178	RoyPm	.1	456	94	94	94 + 14
Panchis	.15	29	9	9	+ 9	RoyPm	.260	29	29	29	29 + 14
ParthKh	.60	1637	124	119	+ 12	RustPm	.635	125	119	119	119 + 14
PatnIM	.29	74	7	7	+ 7	RyanFe	.513	222	214	214	214 + 14
PaulKh	1	119	114	114	+ 114	S	S	S	S	S	S + 14
Psycho	.508	197	197	195	+ 192	SAYInd	.24	10	95	95	95 + 14
PeakHC	119	134	134	134	+ 134	SCI	.449	158	158	152	152 + 14
PegGold	.08	433	76	67	+ 74	Sy	.142	244	24	24	24 + 14
PonBns	2.20	2	33	33	+ 23	SEI	.50	89	25	24	24 + 14
Puntars	.55	51	304	280	+ 304	SFE	.20	5	74	74	74 + 14
PeopEx	.057	1657	8	8	+ 8	SRI	.30	89	174	17	17 + 14
Petrite	1.12	45	252	264	+ 265	Salecda	.34	212	248	244	248 + 14
Pharmc	.54	78	74	74	+ 74	Salecco	1.50	865	134	451	451 + 14
PSFS	.156	331	102	104	+ 105	SapRfts	.47	1448	134	122	124 + 14
PhiliG	.536	3287	224	224	+ 224	Sjuude	.47	202	204	205	205 + 14
PhixAm	28	35	32	32	+ 32	SjPaul	SjPaul	SjPaul	SjPaul	SjPaul	SjPaul + 14
PicSav	.349	31	305	31	+ 31	SjCpt	SjCpt	SjCpt	SjCpt	SjCpt	SjCpt + 14
PicSca	.52	181	22	217	+ 217	SanBar	.53	133	5	77	5 + 14
PhoniKh	1.04	822	38	37	+ 37	SavNms	.894	20	314	204	204 + 14
ProsSt	.12	115	104	99	+ 105	SBSPSS	.44	80	21	204	204 + 14
PoFoFa	.25	15	99	98	+ 98	ScanDpm	ScanDpm	ScanDpm	ScanDpm	ScanDpm	ScanDpm + 14
PolyMng	1405	234	234	234	+ 234	ScanTm	.493	154	154	152	152 + 14
Porox	174	25	254	254	+ 254	Scherv	.52	45	15	145	145 + 14
Powell	.95	78	74	74	+ 74	SchimA	.400	111	26	26	25 + 14
Powrtcs	.32	154	73	73	+ 73	SchimC	.40	46	46	47	47 + 14
PwConv	.55	127	124	124	+ 125	Schit	.69	84	84	84	84 + 14
PrecCat	.12	75	292	124	+ 294	Schen	.565	84	84	84	84 + 14
PridPng	514	126	126	124	+ 123	SearGal	.151	42	42	42	42 + 14
Prium	2230	6	51	6	+ 6	Segeata	.492	74	74	74	74 + 14
PrecCms	71	812	97	91	+ 94	SEED	.270	26	26	21	21 + 14
PricaCo	1338	782	754	774	+ 774	Seibel	.05	142	204	184	184 + 14
Prtront	.82	15	123	123	+ 123	Sensor	.05	795	9	59	59 + 14
ProdOp	.16	53	42	42	+ 41	SchwMkr	.05	5054	124	112	112 + 14
ProgCs	.12	1494	454	454	+ 454	Symnts	.84	23	23	23	23 + 14
PropTrt	1.20	126	114	112	+ 114	Service	ServFrc2	14	211	204	214 + 14
Provtr	.45	224	224	224	+ 224	ServOak	.16	512	204	193	20 + 14
Purish	.40	149	53	51	+ 53	SchwMed	.05	1550	359	355	355 + 14
QMS	458	85	9	9	+ 9	Storms	.184	12	424	424	424 + 14
Quadrax	.664	94	84	84	+ 84	Shebrys	.16	57	57	59	59 + 14
QuickeCo	.82	821	15	15	+ 15	Sheldis	.15	183	95	95	95 + 14
Quintum	644	264	679	679	+ 679	Shaneys	.3475	27	26	26	26 + 14
QuicM	114	45	41	41	+ 42	ShonBos	.48	124	124	124	124 + 14
Quinto	.237	185	162	162	+ 162	Silicon	.182	13	13	13	13 + 14
Quoim	3.98	13	123	123	+ 123	SiliconS	.05	5	5	5	5 + 14
R	R	R	R	R	R	SilkeVal	.274	22	22	22	22 + 14
RAX	.01e	151	7	68	+ 7	Silcnx	.96	95	56	56	56 + 14
RPM	.62	749	194	181	+ 182	Simpin	.50	75	165	158	158 + 14
RedSys	306	141	141	145	+ 145	Slippin	.34	105	104	104	104 + 14
RadR7	.9	74	74	74	+ 74	Stizzlers	.195	104	104	104	104 + 14
Radion						Stipper	.06	71	104	95	103 + 14
						Smith	.1203	5	5	5	5 + 14
						Society	1.84	294	554	547	55 + 14
						SocSciSw	.264	221	221	221	221 + 14

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LEUVEN/LUXEMBOURG**

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FINANCIAL TIMES

Because we live in financial times.

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

Prices at 3pm, January 7

Continued on Page 33

AMEX COMPOSITE PRICES

Prices at 3pm, January

Stock	Dw	P/	Sls	High	Low	Last	Cchg
Action	223	17	112	112	112	-	-
AstroB	16	20	360	304	292	287	+ 1
Aerone	53	15	45	4	4	-	-
AeroP	.50	22	34	531	529	524	-
AirCal	8	85	6	72	71	71	-
ArCalP	120	53	103	104	103	-	-
Alphair	.05	106	105	105	105	-	-
Amdata	20	22	751	158	158	158	-
Alrasel	4	7	74	73	73	-	-
AlMzeA	59	71	27	154	15	15	+ 1
AlMzeB	.52	70	5	148	145	145	-
AMBld	164	7	59	7	59	-	-
APed	14	41	494	441	441	+ 4	-
AmRoy	12.05	22	144	132	132	+ 1	-
ASciE	16	22	44	35	35	-	-
Amptel	.06	9	161	24	24	-	-
Andel	33	16	56	52	52	-	-
Andib	16	24	24	24	24	-	-
ArgoPt	192	22	23	23	23	-	-
Armita	3	42	47	42	42	-	-
Asstrg	.20	53	258	82	82	+ 1	-
Astrots	122	16	16	1	1	-	-
AttaCM	.55	55	16	16	16	-	-
Avondl	.80	118	12	174	173	+ 1	-
B B							
BAT	In 166	5625	4-16	41	41	-	-
BarryG	34	56	56	56	56	-	-
Baruch	.37	18	2	104	104	-	-
BengBr	55	115	327	331	331	-	-
BioCps	14	167	255	242	242	-	-
BgvY	.40	7	2	168	168	-	-
Bindlk	1	13	4	325	302	-	-
BlountA	45	26	233	156	156	-	-
BlountB	.40	23	6	154	154	-	-
Boatw	20	17	236	58	58	-	-
Bowme	.44	16	16	251	251	-	-
Braig	1.60	15	254	252	252	-	-
C C							
CAMI	Cp	5	132	74	72	-	-
Carmce	.44	11	89	182	172	+ 1	-
CamerG	.26	65	154	154	154	-	-
CastA	320	12	5	172	172	-	-
ChmpH	30	138	24	2	2	+ 1	-16
ChmpMs	.18	18	180	202	202	-	-
ChrgGas	120	10	2	34	34	-	-
Clearst	.09	15	35	37	37	-	-1
CmrcCh	.40	22	167	167	167	-	-
ConchF	40	12	5	202	202	-	-
ConchsG	33	42	61	61	61	-	-
vConA	14	329	16	154	154	-	-
Cordmid	10	38	262	254	254	-	-
Cross	144	17	6	37	37	-	-
CmcpC	8	2	178	175	175	-	-
CrcPb	8	6	152	152	152	-	-
CrcPbL2	1	115	5	16	16	-	-16
CrcPbT	1	126	5	16	16	-	-
CrysO	1828	5-16	5-16	5-16	5-16	-	-
Cubic	.28	50	234	224	224	-	-
Curcuse	.22	18	9	274	274	+ 1	-
D D							
DWG	.02	200	21	21	21	-	-
Damson	200	34	34	34	34	-	-
Datapd	.16	101	169	169	169	-	-
Delmed	855	7	116	116	116	-	-18
DevCp	1483	5	124	142	142	-	-
Digicon	30	16	11	11	11	-	-
Dilards	20	644	441	403	41	+ 1	-
Diodes	23	21	43	4	4	-	-
DomeP	3085	20	16	23-16	21	+ 1	-
Driller	Ducom	.50	58	316	31	-	-
E E							
EAC	.40	35	15	66	66	-	-
ERG	.22	290	10	54	54	+ 1	-
EagleCl	18	18	24	24	24	-	-
EastCo	1 10	1	19	16	19	-	-
Easpp	8.86	7	231	304	304	-	-
Echog	.12	822	132	132	132	-	-
Elektor	50	34	34	34	34	-	-
Envir	80	14	14	14	14	-	-
Espey	.40	18	114	224	21	-	-12
F F							
Fidata	.75	54	51	51	51	-	-
Fluke	1.38	15	82	82	82	-	-
Forrest	33	164	164	164	164	-	-
FreelEl	.20	145	128	128	128	-	-
G G							
GRI	3	47	42	42	42	-	-1
GabbyO	18	4	19	11	11	-	-
Gardig	182	16	154	154	154	-	-
Ganner	1	13	233	304	304	-	-
GidRfd	18	26	307	30	307	+ 1	-
Gmksa	40	14	22	15	15	-	-
GntrCp	.46	16	185	185	185	-	-
GntrCp	.52	163	163	163	163	-	-
H H							
Hanfrds	.50	16	127	23	27	-	-
Hastbs	.15	1080	357	354	354	-	-
HatchC	72	28	16	16	16	-	-
Helsuk	.55	16	16	16	16	-	-
HershO	105	10	18	18	18	-	-
HolyCn	7	10	10	10	10	-	-
Hornets	.55	12	28	23	23	-	-
Hornstar	12	275	6	78	78	-	-
HoutD	.86	632	4	34	34	-	-
Husky	.36	500	78	78	78	-	-
ImpDqg	1.60	273	388	381	381	-	-
Insight	7	236	14	14	14	-	-
Intsys	.29	7	25	25	25	-	-
IntCry	.80	16	117	174	174	-	-
Intmkt	.125	38	117	158	158	-	-
I R							
ImpDqg	1.60	273	388	381	381	-	-
Insight	7	236	14	14	14	-	-
Intsys	.29	7	25	25	25	-	-
IntCry	.80	16	117	174	174	-	-
Intmkt	.125	38	117	158	158	-	-
J J							
Jacobs	.71	14	14	14	14	-	-
JohnPd	.71	14	5	3	3	-	-
Johnrd	.20	15	123	123	123	-	-
KeyCp	.20	15	145	145	145	-	-
KirkPn	.27	822	114	114	114	-	-
Kirkark	22	27	28	28	28	-	-
Kirby	22	27	28	28	28	-	-
KogerC	2.32	93	88	88	88	-	-
L L							
LaBerg	.24	24	14	14	14	-	-
Laser	16	75	104	104	104	+ 1	-
Lensur	6	123	123	123	123	-	-
Lorber	17	330	145	145	145	+ 2	-
Lumex	.06	34	51	51	51	-	-
LynchC	.20	29	39	39	39	-	-
M M							
MCO	14	5	138	121	121	-	-
MCO Re	.75	7	17	17	17	-	-
MSI Dr	.20	38	111	111	111	-	-
MSR	13	12	24	24	24	-	-
Macro	21	13	151	151	151	-	-
ManPr	.15	20	345	127	127	-	-
MatPat	.15	20	80	80	80	-	-
Matrix	.17	205	125	125	125	-	-
Media	1.18	17	221	85	85	+ 1	-
MchGn	.75	7	15	15	15	-	-
MchE	.24	83	67	154	154	-	-
N N							
NtPaint	.10	529	254	224	224	-	-
NikoAr	.78	19	5	174	174	-	-
NYTimes	1.25	14	192	140	140	-	-
Newbs	.25	6	54	54	54	-	-
NoteX	.23	24	24	24	24	-	-
NicDogs	.10	1	104	56	56	-	-
Nutrac	.05	85	85	85	85	-	-
O O							
DEA	1510	114	109	109	109	-	-
FarmR	.57	372	117	117	117	-	-
FrmGps	.178	1861	704	69	69	-	-
Feroflo	.47	417	417	417	417	-	-
Fibron	.259	167	151	151	151	-	-

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Continued on Page 31

FINANCIAL TIMES

WORLD STOCK MARKETS

WALL STREET

Spurred by interest rate optimism

RENEWED optimism over interest rates swept Wall Street stocks higher yesterday, writes *Terry Byland* in New York.

Buying programmes by major brokerage firms sparked off a broadly based advance which was led by banks, utilities and technology stocks. A recovery in airline issues reflected hints of further cuts in oil prices.

The bond market rose by three quarters of a point as it moved confidently into the auction of \$6.5bn of seven-year Treasury securities. Treasury bills remained steady but the outcome of Monday's bill sale confirmed hopes of an early cut in the federal discount rate.

At the close the Dow Jones industrial average was up 18.12 at 1,565.71.

The spurt in stock prices caught many investors' wrong-footed, drawing in many who had been expecting a lull in the equity market, which would offer opportunities for cheap buying.

But the new year has brought investment programmes from the mutual and pension funds, swollen by the individual retirement accounts of private investors. Municipal bonds, favoured by private investors, surged on Monday, calming credit market nervousness ahead of this

week's heavy federal funding programme.

Among interest-rate sensitive stocks, utilities were featured by a 5% gain to \$40 in Consolidated Edison, the New York power supply company and of 5% to \$32 in Public Service Electric & Gas.

Also strong were banks, which have kept prime lending rates steady as money market rates have weakened. Bankers Trust jumped 5% to \$75, Chase Manhattan 2% to \$75 and J. P. Morgan 1% to \$65. BankAmerica, however, eased 5% to \$154 after a brokerage house reduced its earnings forecast.

Great Western Financial, 5% up at \$35, starred in the thrift sector, which also responded vigorously to hopes of lower rates.

The industrial sector, was led by technology stocks, with Digital Equipment another 3% up at \$135. Salomon Bros recommended the stock. Honeywell gained 5% to \$73 and Burroughs 1% to \$63. At \$155, IBM climbed \$1 in brisk trading, to approach its recent peak.

Tobaccos strengthened after R. J. Reynolds forecast record profits for 1985. Reynolds moved up 5% to \$32.

Airline stocks, torn between fears of a fare-cutting war and hints that oil prices could soon dip below \$20 a barrel, took the more optimistic view. American rose 5% to \$41 and Delta 5% to \$39.

But the outstanding feature was the heavy speculative buying of Pan Am, up 5% to \$8 as takeover rumours returned in force. Another takeover favourite, Northwestern Air gained \$1 to \$45.

On the international takeover front, stock in SCM jumped 2% to \$74 in early trading, as Hanson Trust of the UK

apparently consolidated its bid victory after a court blocked attempts by the Merrill Lynch group to defeat the British bidder. SCM stock is now well above the Merrill offer, and in line with the Hanson terms.

Merrill Lynch, the largest US retail broker, was itself again a target of bid gossip, despite denials by both Chrysler and Merrill. Turnover in the broker was heavy, with the price 5% off at \$36.

With lower US interest rates expected to renew downward pressure on the dollar, selected pharmaceuticals issues moved up. Pfizer, a notable beneficiary of a lower dollar, gained 5% to \$31, while others to the fore included Upjohn, 5% higher at \$128.

In the credit market, bonds showed renewed strength as the auction of seven-year Treasury securities opened. The yield on the long bond dipped to 9.22 per cent, signalling an expected yield of around 9 per cent at the seven-year auction. Federal funds eased below 8 per cent, and there were small falls in Treasury bill rates.

EUROPE

Foreigners overwhelm Frankfurt

Hordes of FOREIGN buyers overwhelmed the Frankfurt stock exchange yesterday and forced bourse authorities to extend the trading session by half an hour, the first such move in post-war Germany.

The more remarkable thing was that most of the buying support was for Volkswagen, which soared DM 30 to a record DM 552 after Monday's DM 22.50 jump on the apparent rekindling of rumours that the leading European car group had increased its chances of winning a significant order for an engine plant in the Soviet Union.

Other leading car stocks, which have been fundamental in taking the West German bourses to successive all-time peaks, benefited from VW's dazzling performance. BMW reversed early softness into a DM 2 gain to close at DM 602.

The shadow of Flick reappeared with today's settlement for the 3.4m Daimler shares, but just to further confound the market the quality car group's shares did not fall as expected but finished DM 8 higher at DM 1,308.

Hectic buying was also evident in Metallgesellschaft which soared DM 42.50 to DM 400, while Linde managed a DM 5 gain to DM 657.

Allianz lost DM 93 to DM 2,357 after its denial that it had plans for a capital increase. Associate insurer Munich Re sprinted DM 90 to a record DM 3,500.

Other financials continued to suffer profit-taking pressure with Deutsche Bank marked DM 16.50 lower to DM 890.50, while Commerzbank eased DM 9 to DM 358.

Stores continued to be buoyed by prospects of higher consumer spending this year with Kaufhof DM 13 dearer at DM 375 and Karstadt DM 3 up at DM 350.

The Commerzbank index fell 19.0 to 2,029.9.

The dramatic surge in stock volume - now estimated at nearly DM 1bn a day - spilled over into the bond market where longs gained up to 35 basis points and shorts moved between losses of 10 basis points and rises of 5 basis points.

The Bundesbank sold DM 60.3m worth of paper after buying DM 24.0m on Monday.

A retreat by foreign investors from Amsterdam continued to hit prices, forcing falls of up to 15 per cent in places. The ANP-CBS General index dipped 4.8 to 261.1. Bonds were largely unchanged.

Philips suffered the most among internationals with a FI 140 drop to FI 61.70, while KLM moved against the trend with a FI 1 gain to FI 55.

The recovery in Brussels evaporated as low turnover produced a hesitant performance.

Heavy turnover volume and persistent profit-taking were the hallmarks of a weaker Paris and Zurich.

Milan, partly refreshed from a three-day holiday, turned lower while Madrid was buoyed in light trading. Stockholm hit a peak with all the attention on Fermenta's planned purchase of stakes in competitors giving it a significant position in the Swedish pharmaceutical industry. Pharmacia, Fermonta, Sonesson, Gambio, Leo and Nils Dacke were suspended pending today's announcement of the details of the plan.

Source: Merrill Lynch

US BONDS
Treasury Jan 7* Prev
Price Yield Price Yield
7% 1987 99 1/2 7.96 99 1/2 8.012
9% 1992 104 1/2 8.62 104 1/2 8.523
9% 1995 103 1/2 8.94 102 1/2 9.045
9% 2015 106 1/2 9.215 105 1/2 9.233

Treasury Index
Maturity Return Jan 7* Prev
Index Day's change Day's change
1-20 128.50 +0.34 8.85 -0.04
1-10 134.86 +0.20 8.40 -0.04
1-3 126.39 +0.08 8.03 -0.03
3-5 136.76 +0.20 8.56 -0.03
15-30 151.59 +0.01 9.32 -0.06

Source: Merrill Lynch

Corporate Jan 7* Prev
AT & T Price Yield Price Yield
10% June 1990 101% 8.90 101% 9.90
3% July 1990 86% 7.40 86% 7.40
8% May 2000 91% 9.85 91% 9.85

Xerox
10% Mar 1993 104% 9.35 104% 9.35

Diamond Shamrock
10% May 1993 102 10.20 102 10.20

10% May 1993 102 10.20 102 10.20

Federated Dept Stores
10% May 2013 102 10.40 102 10.40

Abbott Lab
11.80 Feb 2013 111.00 10.55 111.00 10.55

Alcoa
12% Dec 2012 108% 11.25 108% 11.25

FINANCIAL FUTURES
Chicago Latest High Low Prev
US Treasury Bonds (CST)
5% 32nds of 100%
Mar 85-23 85-24 85-10 84-28

US Treasury Bills (IBIB)
\$1m points of 100%

Mar 93-19 93-22 93-16 93-14

Certificates of Deposit (ICM)
\$1m points of 100%

Mar 92-54 92-57 92-54 92-47

LONDON
Three-month Eurodollar
\$1m points of 100%
Mar 92-24 92-26 92-16 92-17

Platinum 20-year National Gilt
\$50,000 32nds of 100%
Mar 109-03 109-11 109-03 108-19

* Latest available figures

TOKYO

Full-blooded conviction on sidelines

THE wait-and-see mood in Tokyo strengthened further yesterday and share prices lost more ground almost across the board, writes Shigeo Nishiuchi of *Yomiuri Shimbun*.

The Nikkei average slipped below the 13,000 level for the first time since December 21, falling 62.55 to 12,981.24. It lost 120 points at one stage. Trading remained at 22,000 shares compared with 23,124 Monday. Losers outnumbered gainers 566 to 238 with 135 issues unchanged.

Resource-related stocks such as oils and non-ferrous metals which gained on Monday, turned down, while small-lot selling pushed down utilities, constructions, blue chips and biotechnologies, although there were no negative factors. Prices managed, however, to recoup nearly half their losses toward the close.

Reluctance of institutional and individual investors to participate in the market was the prime cause of the poor showing. They fear that margin selling by life insurance companies, which was approved by the Finance Ministry this month, may cause the supply-demand situation to deteriorate. The dealing sections of brokerage houses and speculators lacked energy to invigorate the market.

The lack of sentiment in electric power issues spilled over into real estate and railway stocks. Tokyo Electric Power, fifth on the active list with 5.10m shares traded, fell Y80 to Y2,760. Mitsubishi Estate lost Y20 to Y1,150 and Keisei Electric shed Y6 to Y379.

Among resource-related issues, Mitsui Mining remained the busiest stock with 6.74m shares but closed Y7 lower at Y543 after profit-taking. Mitsui Mining and Smelting dropped Y2 to Y399 and Nippon Oil Y20 to Y829.

Hitachi dipped Y6 to Y764, while NEC and Canon plunged Y30 each to Y1,270 and Y1,080, respectively. TDK suffered an Y80 loss to Y4,270.

Kaken Pharmaceutical plummeted Y120 to Y2,560 and Green Cross Y40 to Y2,010.

On the otherwise gloomy market, small-lot buying pushed up Yamamoto Pharmaceutical by Y50 to Y3,050. Kyowa Hakko finished Y7 higher at Y987, while

Fujiya and Taihei Kogyo scored daily limit gains of Y200 and Y103, respectively, to Y2,630 and Y1,100 on rumours of massive buying by speculators.

On the bond market, sell orders exceeded buy orders in the absence of fresh buying factors. The yield on the 6.2 per cent government bond maturing in July 1995, which has recently been favoured by investors, rose from 5.635 per cent Monday to 5.875 per cent, while that on the benchmark 6.8 per cent government bond due in December 1994 went up to 5.720 per cent from 5.680 per cent. Interest rate cuts in Japan and the US expected this month had already been discounted and investors kept away from the market.

LONDON

THE THREAT of more expensive money continued to undermine confidence in London yesterday. The key three-month interbank rate rose to 12 per cent and this was seen to endanger the current level of UK base lending rates, at 11.5% per cent since end-July.

Blue chips encountered early selling but made a late modest recovery after the appearance of cheap buyers. Interest-sensitive retail stores, however, ran into aggressive liquidation. Gilts, too, had another poor day.

The FT Ordinary share index ended 6.5 down at 1,135.3.

Chief price changes, Page 31; Details, Page 36; Share information service, Pages 28-29

AUSTRALIA

INDUSTRIALS rose on indications that domestic interest rates were set to fall and other shares in Sydney benefited from the buoyant mood.

The signs were confirmed late in the day when Westpac Banking Corp lowered its prime rate by 1/4 percentage point to 20.5 per cent.

Large parcels of Comsteel Vickers were sold in the wake of shareholders agreeing to accept an ANI takeover bid. Comsteel was steady at A\$1.35.

Miners, oil and gas and banking issues were mixed while gold stocks were firmer.

SINGAPORE

INSTITUTIONS were moderately active in Singapore yesterday sending prices higher across a broad front.

The Straits Times industrial index put on 9.20 to 630.48 on turnover up at 10.9m from the previous session's 9.2m.

Singapore Airlines was again the most active stock and continued to rise, adding 32 cents to \$6.80.

HONG KONG

Unexpected dash to fresh peaks

INTEREST from institutions injected spirit into Hong Kong yesterday after a quiet morning session, and the Hang Seng index bounded across the 1,800 barrier to its highest-ever level, writes David Dodwell in Hong Kong.

The index rose 18.94 points to end the day at 1,815.53. The previous record high of 1,810.20 was recorded on July 17, 1981. Since then, a property market collapse, followed by political uncertainty during secret Sino-British negotiations over the future of Hong Kong after 1997, has swept the index twice below 700 points.

Since the successful completion of these talks at the end of 1984, share prices in Hong Kong have risen steadily, making the exchange one of the world's best performing markets in 1985.

Market analysts attributed no particular reason for yesterday's rally. The mood since Christmas has nevertheless been generally bullish, with investment interest reported both locally and from overseas. Hong Kong's stock markets traditionally rally ahead of the Chinese new year, which this year falls on February 8, so operators are talking of the index rising close to the 2,000 level in the coming months.

Some brokers said that the market sentiment was bullish as investors expected the bigger companies to report high 1985 profit growth in the next reporting season.

Utilities such as China Light and Power, up 10 cents at HK\$16.20, and Hong Kong and China Gas, 10 cents ahead at HK\$14.70, were the day's strongest performers, with properties such as Li Ka-shing's Cheung Kong, 30 cents firmer at HK\$21.80, not far behind.

Elsewhere in utilities, Hong Kong Telephone gained 20 cents to HK\$10.60, and Hong Kong Electric 5 cents to HK\$8.75.

The laggards of the day were financial stocks, which have been consistently less popular over the past year. Among banks, Hang Seng shed 25 cents to HK\$48.25 and Hongkong and Shanghai Bank was off 5 cents at HK\$8.00.

Sime Darby, which began trading on the Hong Kong exchange yesterday, ended at HK\$1.32 compared with the offer price of HK\$1.65.



The Financial Times announces a second intensive

FT-City Seminar

Skinner's Hall, London
27, 28 & 29 January 1986

This highly successful programme, itself a compact version of the long running FT-City Course, was held for the first time in January 1985 and is now to be repeated twelve months later. The purpose is to provide a thorough briefing on the roles of the major players in the City and discuss the changes now sweeping across the Square Mile. The impact of these developments on the way business is done in the City can now be judged more clearly and the content of the Seminar reflects this.

Mr Win Bischoff of Schroders, Dr Michael von Clemm of Credit Suisse First Boston, Mr Pen Kent

SECTION III

FINANCIAL TIMES SURVEY

INVESTING IN BRITAIN

JUST OUTSIDE Merthyr Tydfil in the heart of industrial south Wales, on the old road from Cardiff, there is a factory that on fine days and holidays flies the flag. Two are, naturally, the Union Flag and the Welsh Dragon; the third is the Japanese.

The factory belongs to Sekini, one of the Japanese concerns that have been drawn in increasing numbers to Britain. Almost next door to Sekini is the Hoover factory, where the US electrical products group makes washing machines.

These two are symbolic of the way in which Britain has managed to attract direct investment from overseas. Hoover is a large concern, employing almost 3,000 people, and was established in Merthyr for many years. Sekini is probably the smallest Japanese concern in the UK, employing fewer than 50 people, and a relatively recent entrant to the area.

The flow of inward investment that these companies represent, shows no signs of drying up. Komatsu, also from Japan, announced just before Christmas that it was to make heavy construction equipment in the north east at Gateshead and Euro-Coumpound Belgium, a supplier of compounds for the carpet industry, set up a manufacturing operation in Manchester.

The list of overseas companies that have established operations in the UK is impressive: Ford, General Motors, Du Pont, Esso, IBM, Hewlett-Packard from the US, Sony from Japan, SKF from Sweden, Phillips from the Netherlands.

A stable society, improved labour relations and generous incentives have all helped Britain secure the biggest share of overseas investment coming to Europe.

As countries worldwide seek new jobs, competition for new projects will continue to be intense

A lion's share

By ANTHONY MORETON, Regional Affairs Editor

Olivetti from Italy, Ciba-Geigy and Roche from Switzerland, Rhone-Poulenc, Renault and Michelin from France—these names just scratch the surface.

Britain has, in fact, captured the lion's share of the investment that has migrated to Europe from both West and East, a performance which is viewed with envy by a number of other European countries. Last year alone, major investments were announced in the UK by Du Pont, Hewlett-Packard, IBM Corporation (an IBM subsidiary), Damon Biotech, Merck Sharp and Dohme, Digital Equipment and Data General Corporation.

Some 41 per cent of all US investment in the EEC, amounting to some \$32bn (approx £23m), has come to Britain. The nearest competitor, West Germany, has attracted 19.2 per cent of that investment, worth \$15bn, with the Netherlands in third place with 10.5 per cent.

worth \$8.5bn. Most Japanese investment in Europe has also come to the UK and even when Japanese concerns have moved to Europe that move has often been from a bridgehead in Britain. It has been estimated that around 40 major Japanese concerns, including Sony, Matsushita and Hitachi, are in the UK.

Nor is it just the US and Japan that are investing in the UK. Many of the European companies are in the country and there is increasing interest in Britain from places such as Australia, Hong Kong and Singapore.

In 1984, the last full year for which figures are available, 235 foreign-owned concerns undertook investment in the UK, of which almost half, 124, were American and a further 38 West German. The Invest in Britain Bureau has estimated that these projects created 28,125 jobs and safeguarded almost 18,000 more, as these.

The number of Japanese businessmen who speak European languages other than English is infinitesimal. British development agencies and local authorities have too gone out of their way to smooth the path of Japanese managers in Britain, and this has undoubtedly played an important part in sucking in additional investment.

Intangible business factors such as language are, however, outweighed by solid commercial reasons when it comes to choosing between locations.

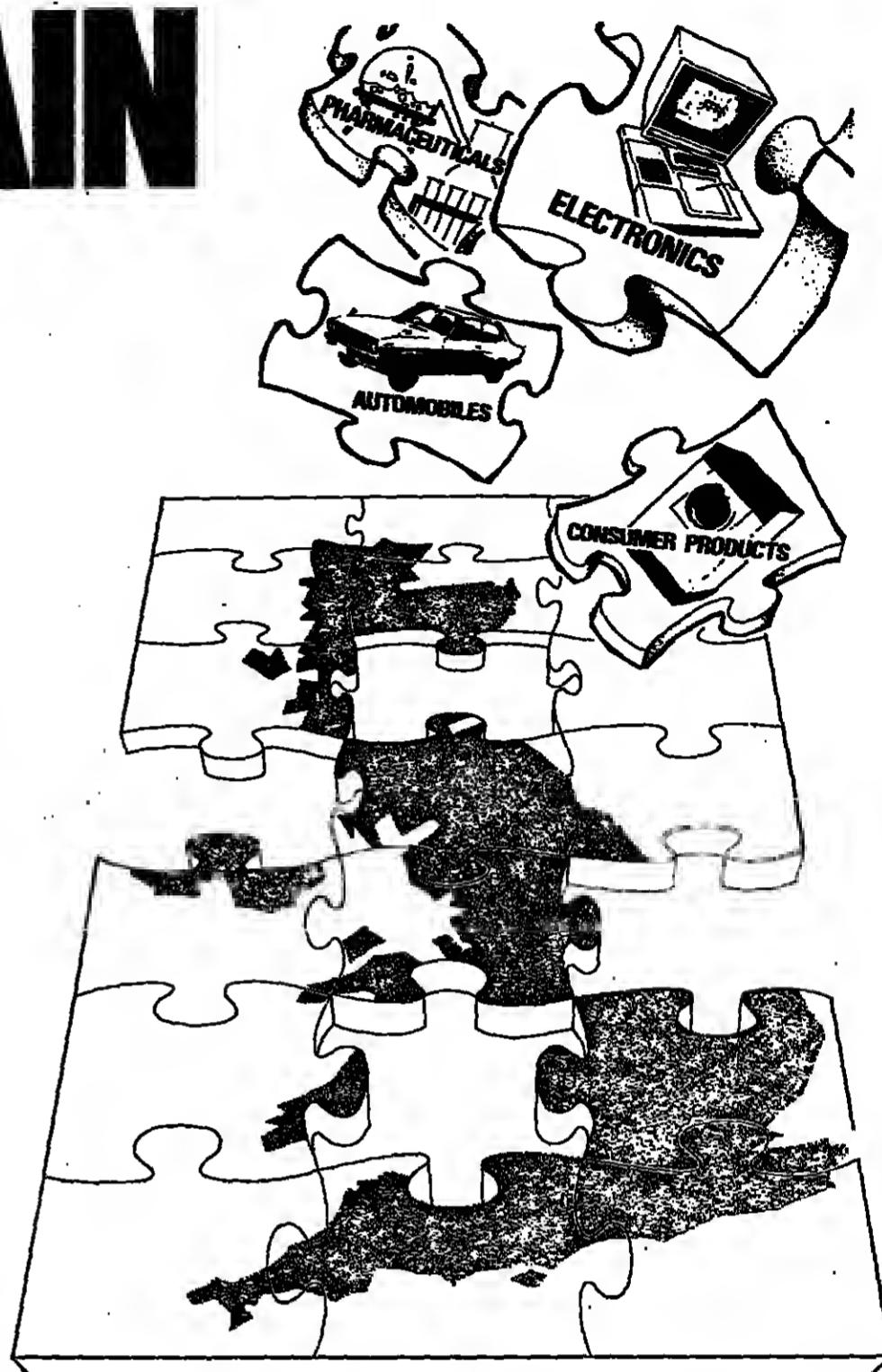
All the European countries compete strongly in the provision of grants and other incentives in order to attract mobile international projects, and there is strong competition too from other parts of the world, including most recently China. Japanese companies in particular are being strongly courted by the Chinese.

In Britain itself, some £600m was spent in the 12 months to April 1985 on mandatory and selective assistance to industry, setting up in economically depressed regions, though this figure is likely to be lower in subsequent years following the redrawing of the aid map by the present Government towards the end of 1984.

In the areas still covered, however, a company can still receive mandatory grants of 15 per cent towards the cost of new plant, machinery and buildings, and one moving to a lower-tier, intermediate area can still find itself eligible for selective financial assistance.

Another factor which has

CONTINUED ON NEXT PAGE



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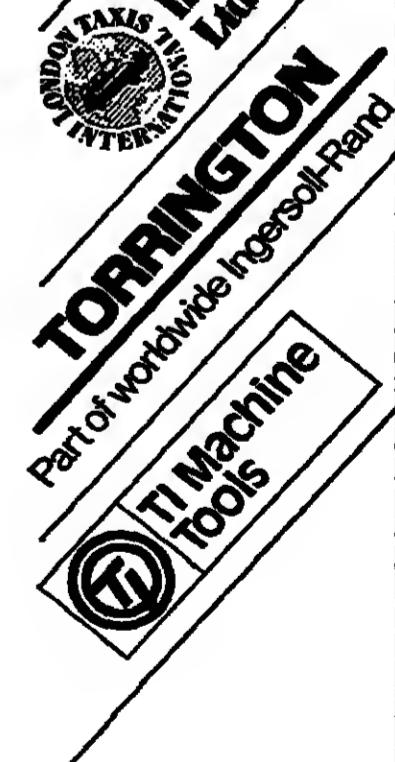
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should be sent to

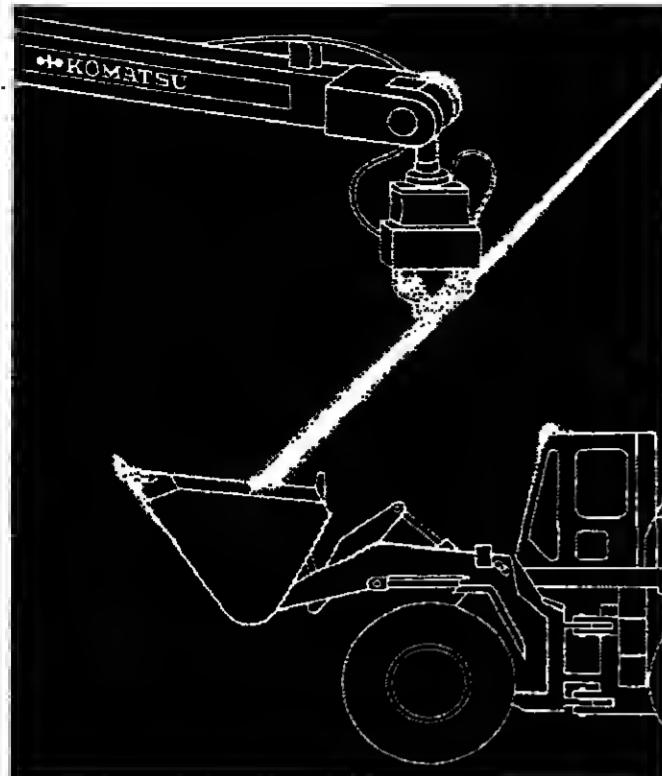
COVENTRY

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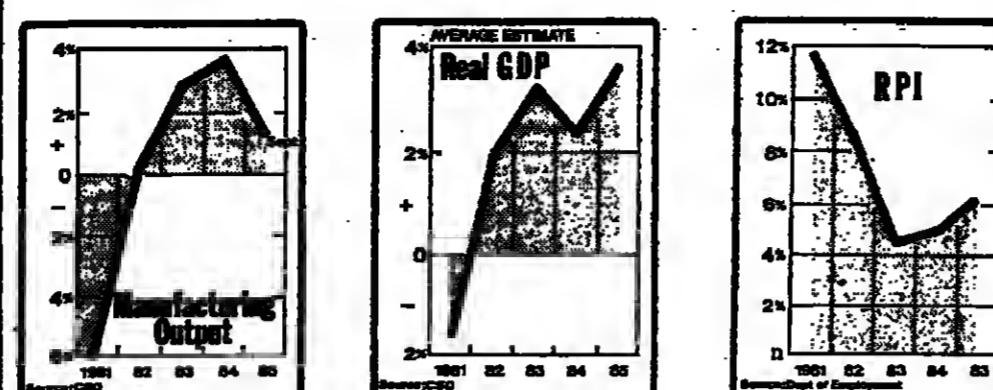
It's a well known fact that we are one of the world's largest makers of construction machinery. Less known is our work in electronics. Research and development in this field has led to the use of mechatronics in our latest series of construction machines. This in turn has resulted in considerable benefits to our customers such as better cost performance in terms of the Return on Investment.

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Some successes but jobs gap remains

Economy

PHILIP STEPHENS

SHORT-TERM optimism and medium-term pessimism have been at the centre of recent debate in Britain about the country's overall economic prospects.

The Government, despite the recent jitters on the oil and foreign exchange markets, is confident that 1986 will be another year of strong growth and relatively low inflation.

That would allow it to claim the longest recovery in post-war history.

Independent forecasters are slightly less optimistic and highlight the fact that there seems no immediate prospect of a significant fall in the unemployment rate from the present 13 per cent. But they concede that the Treasury's projections for output and inflation next year are entirely plausible.

Critics of the Government's medium-term financial strategy—the basic framework for its tight monetary and fiscal policies—have tended to focus their attacks on the medium-term uncertainties of Britain's oil wealth gradually declining.

Their argument is that the large size of Britain's productive capacity, particularly manufacturing industry, displaced by oil production and exports cannot be revived without a far more interventionist

industrial strategy. But the hostile official reaction to a recent report from the House of Lords urging greater government help for manufacturing industry suggests that there is little prospect that it will abandon its present hands-off approach.

The official view is that the deep recession of 1980 and the Government's tough line on inflation has left industry leaner, fitter and more able to compete in world markets.

The short-term optimism is found in the Treasury's Autumn Statement on the economy, released two months ago. It predicts that output will rise by 3 per cent in 1986 after an increase of 3½ per cent last year.

Retail price inflation, which hit a temporary peak of 7 per cent in the middle of 1984, is forecast to be below 4 per cent by the end of this year.

Mr Nigel Lawson, the Chancellor, claimed that 1986 would therefore be the first year since the 1960s that Britain's inflation and growth rates have been within percentage point of each other.

The recent flurries on the world's oil markets in response to Opec's apparent determination to preserve its share of production have probably trimmed Mr Lawson's tax-cutting ambitions for 1986.

And sterling's response to the Opec announcement last month—it lost 4 per cent of its value in three days before calm was restored—has shown how vulnerable Britain is to the vagaries of international oil prices.

But the steady upward revisions in the growth projections of many independent forecasters over recent months, has underlined official confidence over this year's prospects.

If growth is likely to remain buoyant its composition is expected to change markedly. Over the last two years the main engines of the recovery have been investment and exports.

Boosted by tax changes, which have encouraged companies to bring forward capital spending ahead of the phasing out of capital allowances in April of this year, business investment grew by 14 per cent in 1984 and 6 per cent last year.

The higher capital spending has also run in parallel with a surge in company profits. Between 1981 and 1984 profits rose by 70 per cent and there was a further 6 per cent increase between the first half of 1984 and that of 1985.

Exports, which began to grow in 1984 in response to sterling's decline over the previous two years, increased by an estimated 7 per cent in volume terms last year.

For 1986, however, the key to rising output is expected to be consumer spending, generated by buoyant earnings and a slower pace of price increases.

The sharp rise in the sterling exchange rate since the crisis in January last year and the weakness of international commodity prices will put sharp downward pressure on inflation.

The average earnings of those in work, however, are expected to continue to rise by between 7 and 8 per cent, triggering a steep increase in disposable incomes. The result, the Treasury predicts, will be a 4 per cent increase in the volume of consumer spending, with outlays on consumer durables rising by as much as 10 per cent.

In contrast, the growth rate of exports, which has already weakened considerably, is predicted to slow to between 2 and 3 per cent, while the Treasury's forecast of a 4 per cent rise in business investment is widely regarded as over-optimistic.

The latest survey by the Department of Trade and Industry suggests that capital spending across all industries will rise by only 1 per cent. For manufacturing industry alone it projects a 2 per cent fall.

To prevent these increases being passed on in the form of higher prices, official policy is expected to be directed towards maintaining a competitive squeeze on companies through high interest rates and a strong pound.

The danger is that companies will respond not by reducing the level of pay increases but with a further spate of redundancies, pushing up the unemployment even higher.

UNEMPLOYMENT

	Scotland	Yorkshire & Humber
1	14.9%	14.5%
N. Ireland	21.3%	12.3%
2	16.2%	10.5%
North	17.9%	9.7%
3	15.6%	11.8%
W. Midlands	14.9%	
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Investing in Britain 3

Party system starts to change

Politics

MALCOLM RUTHERFORD



Mrs Thatcher: Thatcherism is now part of history

BRITAIN HAS had nearly seven years of Mrs Margaret Thatcher as Prime Minister with two more years to come. "Thatcherism" or "Thatcherite" are sometimes used as a form of abuse, but they are also coming to have an historical sense—rather like Gaulism in France in the 1960s. For good or ill, she will have shaped British politics for a decade.

It is worth looking back to 1979, when she first came to power, to see how much has changed.

The initial answer is: a lot. But there are two subsidiary questions. How far will it stick? And was it the right kind of change?

The main political change has not been directly of Mrs Thatcher's making. The political map of Britain is quite different now from what it was seven years ago. There used to be, at most, a two and a half party system. Labour and the Conservatives, with the Liberals sometimes doing well in by-elections and once, in February 1974, poised to take a large share of the national vote in a general election.

At that time, some of the electorate drew back at the last minute and the Liberals won just under 20 per cent of the vote and only 14 seats in the House of Commons.

There is now almost a three party system, at least in contour. The formation of the Social Democratic Party in 1981, mainly as a breakaway from Labour, and the subsequent alliance of the SDP with the Liberals, accelerated trends already in existence.

It used to be said, especially by the two main parties, that a vote for a third party at a general election was a wasted vote because there was no chance of it coming to power. That ceased to be an obvious truth once the Liberal-SDP Alliance was established.

It has been several times ahead of Labour and the Conservatives in the opinion polls and has slightly outpollled them in the by-elections during the current Parliament.

A three-party system is not new in British politics, but it is in the post-war period. In the 1920s and 1930s three parties were the norm as the Labour Party was emerging and the Liberals were declining. The Conservatives seem to go on for ever.

Any realistic bet must be that they will win the next general election—in 1987 or 1988—as well: the third in a row.

The reason behind that assertion is that the opposition is divided and that Britain has an electoral system of "first past the post" or "winner takes all". There is no proportional representation.

So long as there are two opposition movements—Labour and the Alliance—fighting each other as well as the Government the odds must be heavily in favour of the Conservatives.

There is no sign whatsoever of Labour and the Alliance coming together, even tactically, before the next general election. What will be the future of the Labour Party if it loses yet again, having already seen its share of the vote fall to below 30 per cent in 1983?

Will the Liberals and the Social Democrats then formally merge into a single party? And,

Regional policy

ANTHONY MORETON

THERE IS a new purpose about Government policy towards the regions and it stems directly from the views of Mr Leon Brittan, Secretary for Trade and Industry since the Government reshuffle last autumn.

Within days of being moved from the Home Office to a posting that was generally seen by outside commentators as a demotion, Mr Brittan had gone to the Conservative Party conference and told delegates that "the proper development and implementation of regional policy is a task of the highest priority."

"There are two subjects that are at the top of every pile within the department," a senior official of his new department said, "privatisation and regional policy."

Mr Brittan's speech caused almost as much surprise as it did admiration. Officials hurriedly got together to try and put up new initiatives to clothe his words with deeds.

They were hamstrung in two ways, which Mr Brittan understood even if he does not publicly acknowledge.

His predecessor at the department, Mr Norman Tebbit, regional policy is a task of the

regarded regional policy as little short of a waste of time and money.

Recasting the shape of regional policy in November 1984, Mr Tebbit cut back the areas of Britain that qualified for assistance and reduced the amount of money that was spent in the assisted areas.

He made considerable savings in doing so and the general feeling was that if Mr Tebbit could have abolished regional aid altogether he would have done so.

Mr Brittan, therefore, came to office knowing he had to work within constraints that were not of his making, and knowing that there were no additional resources he could throw into the pot. If his officials came up with new initiatives they would either have to be ones that cost little or nothing or ones which took from Peter to pay Paul.

This must disappoint Mr Brittan because, as he observes, the central direction of regional policy is to bring jobs to the parts of the country which have been worst affected by unemployment.

He adds: "I have always been a passionate believer in regional policy. It is one of the crucial instruments we have to bridge the gulf between different parts of the country."

"We must never allow it to become less political. The EPTU, which includes the electricians' unions, has become much less interested in Labour Party policies than in securing industrial agreements for its members, and that may be the pattern of the future."

In turn, the unions have become less political. The EPTU, which includes the electricians' unions, has become much less interested in Labour Party policies than in securing industrial agreements for its members, and that may be the pattern of the future.

Privatisation has been another big change. It began with the sale of council houses, which turned out to be a hugely popular political act. The Government has followed up by selling state assets such as British Telecom, so that it is no longer a pipe-dream to talk about a share-owning as well as a property-owning democracy. Those changes will not be easy to reverse.

Darker side

Yet there is a darker side. Three points stand out.

- On the evidence of the last few months, unemployment may have peaked, but it is still just over 13 per cent. It is Mrs Thatcher's biggest liability.
- Attention has turned to the plight of the inner cities and to the gap between those in work and those out of work.
- The economic and social changes have been dominated by oil and gas. They are probably now at their peak. Britain has been extremely lucky to have them. The test of whether there really has been an economic transformation for the better will come as they decline.

Mrs Thatcher and her senior ministers think that their greatest mistake at the outset was to have underestimated how long it would take to turn the country round. That is why the Prime Minister began to speak fairly early on of needing a third term.

Yet perhaps that conceals an achievement. All the main political parties talk fairly sombrely now about the state of Britain. There are fewer rash promises and fewer illusions and no great belief that all problems can be resolved simply by spending money. Labour or the Alliance would be unlikely to go back on too many of Mrs Thatcher's changes.

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Dudley	1981 n/a	(0324) 55433	Wellingborough	1983 74	(0933) 232777
Firborough	1984 12	(0659) 52441	Workington	1983 109	(0900) 656566
Hartlepool	1981 55	(0642) 765911	Clydebank	1981 300	041-952 0084
Isle of Dogs	1982 266	01-516 3800	Invergordon	1983 42	(0349) 853666
Middlesbrough	1983 91	(0642) 222279	Tayside-Aberdeen	1984 7	(0307) 65101
N.E. Lancashire	1983 56	(0282) 27411	Tayside-Dundee	1984 25	(0382) 29122
N.W. Kent	1983 115	(0634) 727777			
Rotherham	1983 58	(0795) 572099			
Salford	1981 238	061-783 3231	WALES		
Scunthorpe	1983 19	(0724) 652 141	Delyn	1983 79	(08528) 4004
Speke	1981 59	051-227 3911	Milford Haven	1984 250	0457 67655
Telford	1984 22	(0952) 612121	Waterway	1984 155	(0792) 50821
Tyne-side-Gateshead	1981 108	061-672 2101	Swansea	1981	
Tyneside-Newcastle	1981 15	(0632) 771611			
	1981 81	(0632) 322820	NORTHERN IRELAND		
			Belfast	1981 250	(0232) 248449
			Londonderry	1983 67	(0504) 263992

Compiled by Sue Hopkins

on regionalism. He instances the action teams which are looking at urban problems and believes these may be taken further. He would like to see the money available for poorly urban problems used in a way that makes sense industrially.

"The DTI does not have a lot of room for manoeuvre with its finances," he says, "but it is possible we could put a package together with other departments to do good in specific places."

Mr Brittan therefore faces a difficult task. He has to convince people he really means what he says about believing in regionalism while at the same time bearing back those assurances with hard facts.

The trimming of the regional budget has led many in the assisted areas to feel they are the victims of a policy that will inexorably boost the rich south east of England at their expense.

Mr Brittan denies vehemently there is a north-south divide in the country. "We have problems in parts of Britain, such as Cornwall and the West Midlands, outside the north," he points out.

"It is far too crude to talk about the division of the country in this way."

This argument is not nearly so easy to sustain in parts of the country which are having to come to terms with structural readjustment. To them, something more than a high profile is desirable.

highest priority."

It is clear that Mr Brittan has doubts about the central thrust of the Tehuit white paper, which was that regional policy should in future be seen in social rather than economic terms.

The economic argument for regional policy is, he affirms, "inconclusive." Rather than appear to be overthrowing a policy only recently installed, however, he says that if people will work on the basis of social terms for regional policy be-

ing reasonable in present circumstances, he is willing to go along with it.

But the doubts he indirectly voices are not those that predate such as Sir Keith Joseph, Mr Cecil Parkinson or Mr Tehuit would have voiced.

Given that he can do little actively at the moment Mr Brittan is happy to settle for a "high profile" policy. This means, to the outsider, one in which he will personally always keep regional policy at the forefront of his own attention but

will not seek to overturn, however covertly, the policy laid down in the white paper.

Such a high profile policy, as Mr Brittan describes it, will hardly satisfy the regions. There is no concession to those who want development agencies for the north east or the north west along the lines of those long since conceded for Scotland and Wales.

What Mr Brittan would like to do is to link the regional policies of his department with those parts of other departments' policies which impinge

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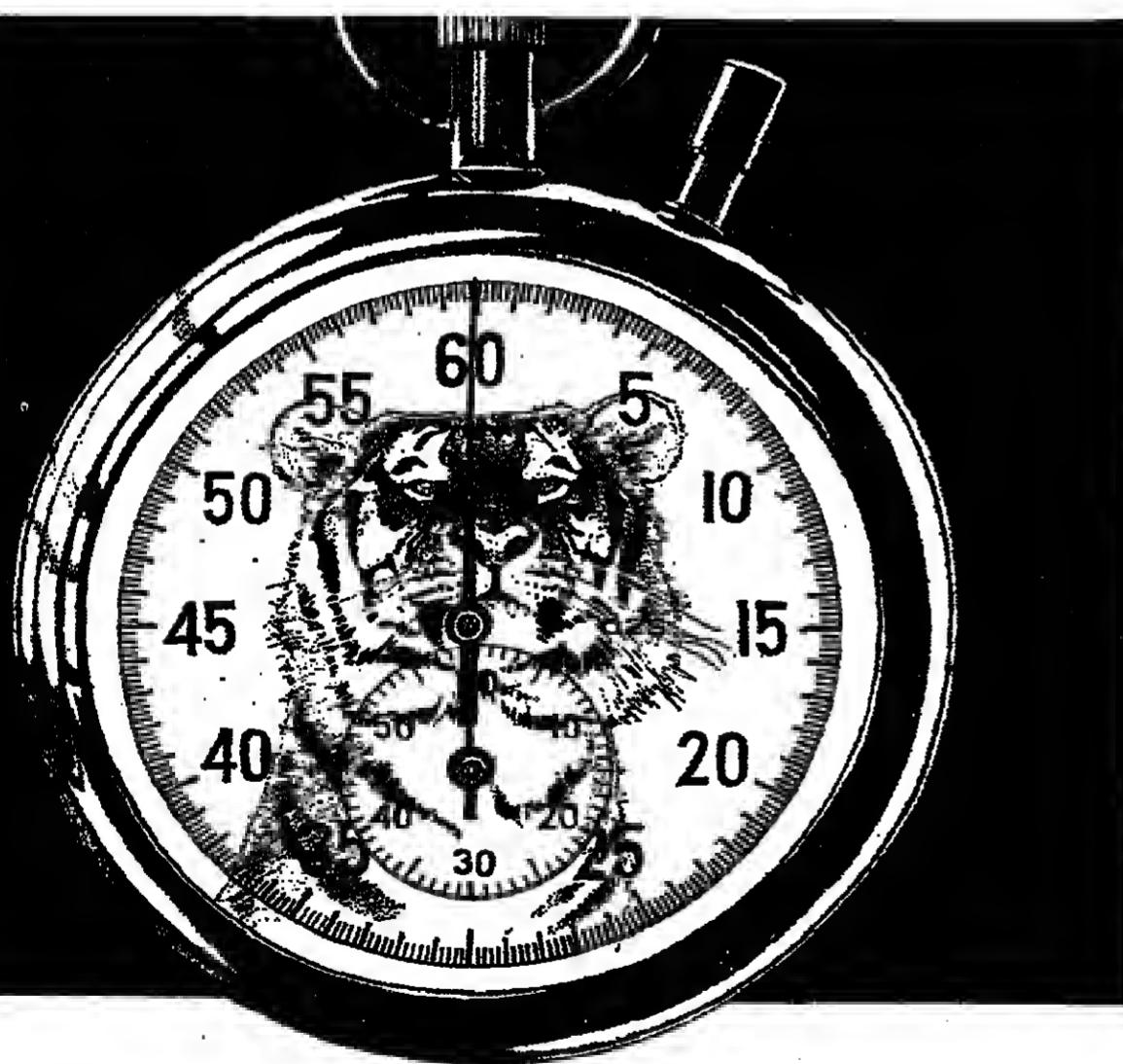
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Investing in Britain 4

Foreign banks attracted by open door policy

Financial Services

BARRY RILEY

BRITAIN HAS one of the most open and internationally orientated financial sectors in the world. There has long been a substantial foreign participation in banking and insurance. Now the only major closed sector, the domestic securities market, is being dramatically opened up later this year in a fundamental restructuring dubbed the "Big Bang".

Traditionally Britain, as an island nation with at one stage a substantial worldwide empire, has been highly active in international trade and this has led naturally to the development of various financial markets — for banking services, insurance, commodities and securities.

Since the Second World War, however, the empire has faded away, and a major driving force behind the growth of financial services has been the determination of the City of London to promote the City of London as a major international centre.

A major example of this has been the "open door" policy towards foreign banks in the past two or three decades, at a time when many countries have jealously protected their own banking systems against external influence.

Now there are as many as 30 foreign banks with full branches in London, according to a survey by the Banker magazine. International business dominates the banking sector, as is shown by the fact that two-thirds of the £75bn liabilities of the banking system in mid-October were denominated in foreign currencies.

Of this total, American banks accounted for around £100bn, and Japanese banks for some £160bn.

This is not to say, however, that foreign banks have found it at all easy to penetrate the domestic core of retail banking.

High street banking is dominated by a handful of clearing banks and a much larger number of mutually owned building societies — each group having sterling deposits of around £100bn.

An attempt by the Hongkong and Shanghai Banking Corporation to buy the Royal Bank of

Scotland was fought off several years ago. But Citicorp, which has been nibbling at the market for more than a decade, has now achieved the important step of direct access to the London clearing system. And new building society legislation may enable societies to incorporate at least the possibility of future takeover bids by foreigners.

Generally speaking, foreign banks have found it easier to enter the domestic corporate market than the domestic retail market. The American banks, in particular, have developed a big business with corporate treasurers in currencies and in short- and medium-term credit.

Longer-term capital is another matter, however. The British merchant banks have maintained their close connections with domestic companies, though they have concentrated increasingly on advisory and other fee-earning business and have been increasingly squeezed out of the wholesale money business.

Now the merchant banks are going through a major shake-up as they seek to adjust to revolutionary changes in the securities markets. At present these markets operate on two levels. The Eurobond market is a fast-growing, young market (just over 20 years old) which is capitalised at maybe \$400bn and is almost entirely operated by foreign banks and securities houses. Until now the London Stock Exchange has managed to keep foreigners out of its own markets, principally the £250bn equity market and the £100bn Government bond or gilt-edged market.

The existence of foreign exchange controls up to 1979 partly explained the Stock Exchange's intransigence.

But by the end of 1980 the Bank of England had begun to get very impatient with the Stock Exchange's unwillingness to fulfil an international role.

At the same time, developments in data processing and satellite communications were starting to transform the global investment scene.

So, in 1983, the first steps were taken to open up the domestic securities markets.

Foreigners have already taken minority stakes in many London securities firms. In March this year they will be permitted

but all personnel other than Mr Bjorvik are British. Plant supervisors have had training in Norway but all training of the manual labour force is now done on site by British personnel.

Mr Bjorvik says he has found nothing surprising in NEK's experience in Britain. It has not been difficult to find trainable labour and labour relations have not been difficult.

NICK GARNETT

In the process the company, one of a number of Scandinavian groups which have crossed the North Sea to begin operations in the North East, has also introduced a ground-breaking continental shift system. The changes involve the replacement of a three-crew five-day working system to one utilising five crews in a continuous working. This has raised total production hours from 5,500 to 8,500 hours per year with a single ten day shutdown over Christmas.

"I am very pleased with what we have achieved," says Mr Asbjorn Bjorvik, the Norwegian joint managing director responsible for production and financial control. NEK manufactures over 0.5m metres of low voltage cable a week at its Washington plant. Its customers include the BBC (for studio cable), and computer companies such as IBM, ICL and Wang. Its cable is also being used in the System X telephone exchange system.

Mr Bjorvik hopes the site's turnover will rise next year to \$3.5m from this year's \$2.6m and that it will be turning out 40 tonnes of cable a week next year against the 35 tonnes it managed through this year.

Oslo-based NEK was partly drawn to the north-east because of its traditional links with Scandinavia, good air communications between the two regions and the work done by the North of England Development Council in setting the north-east to the Scandinavians.

But it was also attracted by the 22 per cent government grants then available as a result of the region's special development area status. Total investment in plant and machinery at the beginning was almost £3m. A further £1m has been put in with the floorspace increasing from 47,000 to 116,000 sq ft.

Mr Bjorvik is the only Norwegian on the site — the other joint managing director, Mr John Day, is responsible for sales and heads NEK's longer-established sales company in High Wycombe, Buckinghamshire.

Norwegian personnel were in Washington acting as consultants during the initial start-up.

to buy 100 per cent, ahead of a complete restructuring of the market's trading systems on October 27.

Both the equity and gilt-edged markets will be affected. In some ways the more dramatic changes will occur in gilts, which will be turned into a look-alike version of the US Treasury Bond market. Almost half of the 29 initially approved market makers will be foreign-owned — though it remains to be seen whether all 29 will go into action next October 27, given general fears of cut-throat competition.

The new equity market will mirror many features of the American-based NASDAQ market in the US. Many unauthorised firms are expected to participate, and already 15 or so are hooked up to the London Stock Exchange's SEAQ International screen system for trading foreign equities, this being something of a trial run for the main domestic SEAQ (Stock Exchange Automated Quotations) system which will also open for business on October 27.

American firms dominate the list of foreign entrants, but there are also Swiss, French, Canadian and Australian contenders and other European firms are expected.

The Japanese have also been interested, but they have been halted so far by an argument about the need for reciprocal access by British firms to the Japanese markets. However, the first half-dozen foreign seats have now been allocated on the Tokyo Stock Exchange, and it looks as though the impasse is beginning to be broken.

Certainly the London Stock Exchange is becoming much more enthusiastic about foreign participation, and suggestions made a year ago about high entry charges have been severely modified.

A major factor behind this has been the setting up of an embryonic organisation of foreign securities houses — provisionally entitled the International Securities Regulatory Organisation — which is in conjunction with the existing Association of International Bond Dealers (based in Zurich, but with most of its members in London) is talking of setting up an international equity market as well as restructuring the Eurobond market on more formal lines.

The formation of Iso reflects the proposal to reshape the UK's regulatory system for investment markets roughly the same time as the stock market is reconstituted.

A new statute-backed body called the Securities and Investments Board is to be set up under new legislation now going through Parliament in the shape of the Financial Services Bill. This means that any firm dealing in investments in the UK — British or foreign — will need to be authorised.

Usually this will be done through membership of self-regulatory organisations required by the SIB, though the Bill also provides for direct authorisation by the SIB itself. Firms will have to satisfy fit and proper criteria, and comply with



An open door policy has made London one of the world's three main financial centres. Liberalisation will be taken a stage further this year with the restructuring of trading in domestic securities.

various rules covering matters like solvency, surveillance and reporting. It will be a criminal offence for unauthorised firms to operate in the UK in a wide range of broadly defined investment markets.

Outside the securities trading field, the relevant areas will include the futures markets, where the London International Financial Futures Exchange is now, after three years, well-established as the largest futures market outside the US. Many foreign firms are represented in this market.

But while Life grows, the much lower-established commodity futures markets are affected under something of a cloud, especially by weak prices, the effect of severe competition from the US exchanges, and the recent crisis in the tin market.

Investment managers will also need to register with an appropriate SRO, perhaps the mooted Investment Management Regulatory Organisation. London has established an important position as a base for global portfolio management, and a Bank of England survey last year indicated that at least £150bn was being managed, including around \$50bn for overseas residents. Within this the UK offices of foreign firms were running £12bn for overseas residents on a discretionary or advisory basis.

Marketing practices

Certain life assurance and mutual fund (unit trust) operations will also fall within the jurisdiction of the new regulatory framework, at least in respect of marketing practices. This is a competitive area, but several medium-sized life assurance companies have recently been acquired by foreign interests, and one of the biggest US companies, Aetna Life, is currently seeking to build up a presence in the market.

General insurance, meantime, is one of the most cosmopolitan sectors of the financial services industry in the UK. As with banking, the corporate market is easier to enter than the retail market where success depends on very large numbers of individual sales outlets.

Besides the companies there is also of course, Lloyd's, which has been going through a troubled spell but which continues to attract investment money from increasing numbers of rich individuals in the UK and abroad.

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Trade policy

CHRISTIAN TYLER

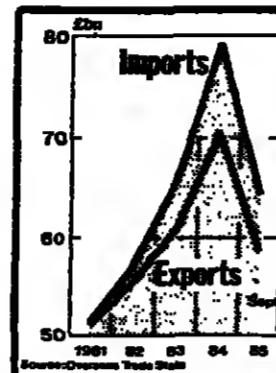
IN BOTH goods and services, Britain claims to operate one of the most open markets in the world. There are three reasons for that, according to a recent redefinition of trade policy by ministers in the present Conservative Government.

First, the UK is a stout defender of the aims of the General Agreement on Tariffs and Trade and is anxious to respect its Gatt obligations. Secondly, there are the anomalies of nearly a third of gross domestic product depends more than most on continuing expansion of world trade under the liberal precepts of the Gatt system.

Thirdly, so the present government argues, the cost of protecting one industry from foreign competition will fall on other industries. Jobs saved in one part of the economy will probably be lost in others; more expensive imports would divert spending power and retaliation by other countries would hit established exporters.

This kind of logic has informed the trade policy of successive British governments. It is rare, except at times of acute economic hardship, for the UK to throw up barriers. Selective and temporary import controls have for years been demanded by the trade unions and by large sections of the Labour Party, for the most part those demands have been ignored, even by Labour governments.

The policy of the present Labour opposition has yet to be fully defined. But there appears to be little appetite,



at least conceptually, for automatic protection from imports, if Labour forms the next government.

Of course, even the market-minded Conservative government is not entirely free-handed in trade policy. Mr Norman Tebbit, the former Trade and Industry Secretary, said in June this year, that until the Gatt safeguard system was made more "flexible," the UK was bound to respond to the damage done by unrestrained imports from the newly industrialised countries and Japan.

Little appetite

"What we have to resolve is the potential conflict between, on the one hand, the social and economic consequences of rapid change in supplying patterns and, on the other, the economic penalties which restrictive practices like voluntary restraint agreements carry."

"I recognise the force of the economic arguments in favour of letting structural adjustments take an unhampered course. But as a politician I need to work within the ambit of what is tolerable to voters

within a democratic society."

Britain's import and export regimes are of course largely shaped by the European Community. Partly because of EEC membership, according to the last detailed study by the Department of Trade, only 7 per cent of visible imports into the UK were subject to British restraints, while 11 per cent were subject to tariffs. (An estimated quarter of the products restrained were also subject to tariffs.)

The net result was that about 75 per cent of visible imports were entering the country free of any restraint. That compares with a figure of 40 per cent in 1960.

The EEC accounted for 47 per cent of UK imports—all tariff-free and the EEA countries 16 per cent—virtually duty-free. Other developed countries, and the centrally-planned economies, accounted for 27 per cent of imports and paid duty on 56 per cent of that trade, while the developing countries, with a 10 per cent share, paid on 43 per cent.

Among the commodities subject to import controls is steel, under the provisions of the European Coal and Steel Community treaty, mainly by means of "voluntary" agreements. More important is the quota restraint on textiles and clothing, permitted by the Multi Fibre Arrangement condoned by Gatt.

Following an economist's analysis of the costs and benefits to the British economy of the MFA, the UK has taken a more liberal line on textile trade. In the forthcoming renegotiation of the agreement it will argue for renewal of the system, but for a much less restrictive framework.

The whole MFA question could be thrown into the melting pot, however, now that the 90 Gatt nations are preparing

for a fresh negotiating round: textile trade must surely become an important bargaining counter for the developing countries if they are to win real concessions from the Soviet Union and its allies in the former nations.

On the export side of the equation, there are few restrictions imposed by Britain. Control orders cover defence equipment, atomic energy goods and "strategic goods." As a member of the Co-ordinating Committee for Multilateral Export Controls (CoCom), based in Paris, the UK is bound to vet sales to some other countries (any goods that might have a military application).

The CoCom rules, recently revised in an effort to keep pace with rapid technological change, are somewhat contro-

versial, however. Many companies argue that the definition of "militarily useful" has been taken to absurd lengths, and that business trade with the Soviet Union and its allies is being impeded.

Other British export controls are designed to conserve scarce materials, to protect animal welfare or to save the national artistic heritage.

Exchange controls were abolished in 1979, since when there has been a very substantial increase in overseas investment. Direct investment overseas by non-EU companies in 1983 amounted to \$2.6bn, with other investment totalling \$1.8bn. UK residents' portfolio investment abroad was over \$6bn. The corresponding figure for all inward investment was \$5.4bn.



INDUSTRY

The shake-out of the past five years has left industry leaner and fitter. The test it must now equip itself for is to make good the loss of oil revenues in the 1990s.

Industry learns to use the European system

Incentives

GAY SCOTT

DESPITE SUGGESTIONS to the contrary, the UK has in general been fairly successful in drawing money from European sources. Britain tends to have good projects and has proved reasonably efficient in drawing up the submissions for vetting in Brussels or Luxembourg.

By far the biggest chunk of EEC spending goes to support the Common Agricultural Policy. Although this expenditure is being brought slowly under control it has not yet diminished to such an extent that industrial funds can grow rapidly.

Funds for training, energy, research and manufacturing are, nevertheless, large and can make a strong input on individual projects. Competition for these funds is tough and getting tougher. The projects constitute a framework for a number of individual programmes which go by acronyms such as Esprit, Race and Brite.

Under the European Regional Development Fund the greater part of the available grants are on quota system with the UK's share set at between 21.42 and 23.56 per cent of the total. Only Italy has a larger share than this with between 30 and 40 per cent.

All the UK has to do to attract this money is to submit eligible projects for industry, services or infrastructure projects in the assisted areas. However, there has been a serious shortage of industrial projects in the last few years of recession and the greater part of the funds have been spent on building roads and bridges and other infrastructure projects.

The Government does not pass on the money which it receives from Brussels for industrial investment under the fund but it does use it to reimburse the Exchequer for grants which it gives under section 7 of the Industrial Development Act.

A recent mid-term review of Esprit, the Community's information technology programme, revealed that a further 67 projects were funded in 1984 to the tune of £183m.

Universities also now view EEC programmes as a way of bolstering diminishing incomes

and many academic and research institutions take an aggressive approach towards securing external funding. For example, the Consumers' Association obtained a grant of around £150,000 for developing Videotex for consumer information under the data-processing programme.

Various soft loans are also available from the EEC. The withdrawal of the Government's exchange risk cover scheme has European Investment Bank loans less attractive than they once were, since European loans are in the totality of currencies and most companies would wish to guard against fluctuations in currency by taking on a sterling liability only.

However, EIB loans are made at below normal base lending rates and companies may consider a medium-term loan in a mix of currencies to match their receivables. In 1984 Short Brothers of Belfast negotiated a £10m loan for the development and production of their 36 seater commuter aircraft.

Of much greater attraction are the loans made by the European Coal and Steel Community not just for investment projects in the industry itself but also for any suitable projects in coal and steel closure areas.

These loans are available for projects which create jobs in manufacturing or services which could be held as suitable for former steel or coal workers. The essential features of European Coal and Steel Community lending—fixed low-interest rates for medium-term lending with delayed capital payments have proved very attractive. The Government still offers exchange risk cover up to a maximum of £500,000 for each project. The sterling interest rate is 2 per cent below the broadly commercial rate.

ECC lending in the UK was low in 1984 of some £42m compared with £163m in West Germany and £107m in France. The UK, however, has by far the largest amount in ECC loans outstanding at the end of that year—£1453m.

Gay Scott is a director of Esprit, financial advisors to industry.

AID FROM EUROPE

ing industry—the agro-food industry: £71m

European Social Fund (for training projects): £232m

European Regional Development Fund (for industry and infrastructure projects): £163m

Loans

European Coal and Steel Community to UK: £43m

European Investment Bank: £221m

Sources: Eurostat, HM Treasury, European Commission

Community payments*

Country	Contributions Ecu m	Receipts Ecu m	%
Belgium	1,268.3	840.1	6.5
Denmark	532.9	1,020.1	4.2
West Germany	7,652.4	4,019.3	16.7
Greece	355.5	1,364.0	5.7
Iceland	4,202.3	4,342.5	13.1
Italy	288.3	1,210.4	5.0
Luxembourg	3,424.4	4,962.4	20.7
Netherlands	1,887.8	2,122.6	9.3
UK	5,429.5	4,092.5	17.1
Total	24,580.0	23,398.2	

Sources: Eurostat. * Includes agriculture.

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Investing in Britain 7

Manufacturing sector shows resilience

Industry
IAN RODGER

THE STATE of UK industry has been a subject of concern and lively debate ever since people became aware two years ago that the country had become a net importer of manufactured goods.

The fact that the country which set off the industrial revolution—a country with few natural resources and a very large population—was no longer able to support itself with the goods it made came as a shock to most Britons. And it has been causing increasing alarm in some quarters because of the impending loss of the past decade's trade surplus on oil.

The issue came to a head in October with the publication of a report by a House of Lords Committee on Overseas Trade. The report argued that the decline was due to low investment in, and the lack of cost-competitiveness of, UK manufacturing over a long period, exacerbated in recent years by high rates of inflation, interest and currency. It predicted that unless the Government took steps to stimulate the economy and provide special support for industry, many manufacturing sectors would continue to decline.

Responding for the Government, Mr Nigel Lawson, the Chancellor of the Exchequer, could hardly have been more devastating. The report, he said, consisted of "special pleading dressed up as analysis, and assertion masquerading as evidence." His view was that British industry was in much better condition than it was five years ago, thanks largely to a more liberal environment provided by the Government.

He argued that, as the oil ran down, the exchange rate would decline and industrialists both in and outside the UK would realise that the country was a good place to make things again. There would be no need for the "cocoon of subsidies" proposed by the Lords committee to bring about a big increase in manufacturing output.

So which side is right? Only time will tell, but there is

already considerable evidence to support the Chancellor's view. Manufacturing industry undoubtedly is in much better shape than it was five years ago. Output per worker in manufacturing is 27 per cent higher than it was in 1980, largely because the Government has enabled managers to get rid of overmanning and the traditional rigidities in labour practices.

Cash flow has also improved steadily. Trading profits before depreciation of UK industrial and commercial companies rose from £40bn in 1980 to £67.5bn last year and there was a further 22 per cent surge in the first half of 1985.

The more vexing question is whether or not the shakeout of the past five years has caused the elimination or crippling of some sectors. And if that is the case, will it be the Lords Committee claims, be very difficult to rebuild them?

It is certainly true that a few sectors, such as motor-cycles, home entertainment products, photographic film, and special steels have all but disappeared. And others, especially motorcars, have seen dramatic declines in output in the past decade.

But the resilience of manufacturing has been greater than many people may suspect. At its lowest point in the fourth quarter of 1979, manufacturing output had tumbled more than 15 per cent by the fourth quarter of 1982.

Since then it has been recovering steadily, and is now only 6 per cent below the 1979 peak. A few of the UK's strongest industries, such as chemicals, pharmaceuticals and electrical engineering, are already above the 1979 peaks.

It is always difficult to get clear measures of capacity. But it is encouraging that even though many sectors are now nudging up against their historic production records, few complaints are being heard about capacity constraints.

What seems to have occurred is that, while much old plant has been scrapped, manufacturers have found that they can squeeze much more output from less equipment, better management and more cooperative workers.

Also, there has been a resurgence in investment in new, more productive equipment. From the last peak of

£7.5bn in 1979, annual gross fixed investment by manufacturing industry dropped to £6.6bn in 1980 but recovered to £8.5bn in 1984 and grew by a further 5.5 per cent in the first half of 1985.

All this would seem to suggest that the mythical automatic regulator beloved by the current Government's economists is working in Britain's favour. Many British manufacturers may well be able to respond quickly and fully to demands for higher output.

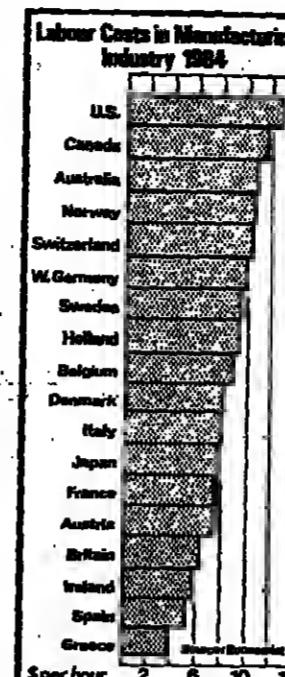
There is also some evidence that manufacturers are already planning to increase output in anticipation of such an improvement. Probably the most clear-cut indication was the decision in October by J. L. Case, the US farm equipment group, to launch a \$20m, five year investment programme in this country, involving the transfer of some of the manufacturing activity from the US. This programme alone is expected to generate an additional £150m in annual exports of manufactured products.

Farm equipment is one of the manufacturing sectors where the UK has remained very strong in recent years despite the difficult trading climate. Many other mechanical engineering sectors, too, have held their own.

Britain also remains a major producer of gas turbine engines. Indeed, Rolls-Royce has the only significant aerospace engine technology outside the US. Similarly, Ruston Gas Turbines is one of the few non-US companies to make its own design industrial gas turbines.

Despite their upheavals in the past decade, the two largest final-product industries remain aerospace and automobiles. The automobile industry finally seems poised for some recovery from the slump of the past decade. Privatised Jaguar has been very successful as a result of a fresh commitment to quality and state-owned Austin-Rover has been making progress towards profitability.

As for the multinationals, Ford and General Motors, like Case, seem to have recognised that the UK will be an increasingly competitive manufacturing centre in the future. Ford, for example, is concentrating all its diesel engine



manufacturing for Europe in the UK.

British Aerospace too has seen its prospects improve, thanks mainly to the recent strengthening of its civil aircraft interests. Airbus Industrie, in which it has a 20 per cent stake, has built up a substantial order book in recent months.

For all the promising signs, it still remains to be seen whether UK manufacturers will be able to fill the gap that will soon be created in the country's trade balance by declining oil imports. There is no doubt that they are now, with considerable Government support and encouragement, doing all the right things—designing for more efficient manufacture, using new materials, adopting flexible factory automation technologies, and paying more attention to marketing.

But it is difficult to tell if they are doing them as rapidly and effectively as their overseas competitors. The performance of the so-called high technology sectors is a particularly puzzling case. The statistics indicate that the electronics industries are growing very rapidly, but hardly a day passes without evidence of leading British companies in these sectors—ICL, Sinclair, Racal, Thorn-EMI, STC—being in trouble.

Perhaps the explanation is that their operations are now of less significance compared to those of foreign companies, such as IBM and Digital Equipment of the US, Sony and Hitachi of Japan, and many others, that are thriving. Time will tell.

Challenge of the post-oil era

Energy
MAX WILKINSON

THE LONG slow decline of Britain's oil production is likely to set in from this year, bringing with it the need for profound adjustments in the economy as a whole.

In just 10 years, crude oil production from the UK sector of the North Sea has risen from nothing to an average of about 2.7m b/d (130m tonnes) last year.

By the end of this year more than 350bn (in current money terms) will have been invested in North Sea oil and gas fields, with the creation of some 160,000 jobs including those in associated industries.

In the next ten years, output from the fields now in production or being developed will fall steadily, and by the end of the century they will be providing only about 10 per cent of the current level of production.

The major challenge Britain has to face is how to re-build the strength of the rest of the economy, especially the manufacturing sector, to provide the export earnings needed to pay for the oil and other goods which will then be imported.

For one of the remarkable aspects about Britain's second major period of discovery of fossil fuel is that it was accompanied by a sharp decline in manufacturing industry. In marked contrast with the great development of the world on the back of Victoria's colonial empire, UK manufacturing output fell by about 15 per cent during the much more rapid build up of oil production from 1970 to 1981.

The decline in manufacturing which has not been completely reversed in the steady recovery since 1981, cannot be linked in a naive way to the rise of oil. The sharp change in monetary policy in 1979 and long-standing structural weaknesses clearly contributed. But the loss of competitiveness as rising oil production helped to strengthen the exchange rate in 1979-80 clearly was an important factor. It points to the essence of the problem which Britain will face in the years ahead.

Although it has become fashionable to analyse the future of "Britain without oil," the outlook is by no means all bleak. The 34 oil fields which were in production or under development by the end of 1984 are likely to keep the UK self-sufficient in oil until the early part of the next decade.



Production platform in the Forties field. As the next 10 years Britain's North Sea oil output will fall steadily.

Future discoveries and production developments could extend that period considerably, perhaps even to the end of the century if UK demand for oil continues to decline and North Sea development is at the upper end of present expectations.

While it seems unlikely that any new discoveries will come close to the spectacular find of 270m tonnes of reserves in the Forties field in 1970, advances in deep sea technology and in recovery techniques could still have a major impact on the total reserves. However, future developments seem likely to be mainly of smaller fields of around 10 to 15m tonnes.

Britain's proven oil reserves in fields under production are now put at 1.45bn tonnes. Proven reserves (those which have a 50 per cent chance of being exploited) could bring this figure to about 2bn tonnes (14bn barrels), with "possible" reserves adding a further 850m tonnes, according to Arthur Andersen, the US accountancy firm.

At current rates of consumption, this would be enough to supply the UK's oil needs for between 17 and 35 years although government policy is to maximise output as well above the UK consumption rate.

Proven gas reserves are put at about 47 trillion (million million) cubic feet, with perhaps a third as much again which may possibly be extracted. This is the equivalent of about 30 to 40 years of current UK consumption. However about a quarter of Britain's gas requirements are imported from the Norwegian sector.

The nuclear programme is therefore seen as a political insurance as well as being a source of relatively cheap energy when the oil begins to run out.

attention is being given to coal, Britain's other great energy resource.

When the oil runs down, the UK will still have plenty of coal—perhaps for 150 years or so. The big question is whether this industry, plagued by strikes, poor morale and declining productivity can modernise enough to meet the challenges as gas becomes more expensive and oil becomes scarcer.

Since the end of the 1984-85 strike, the industry does seem to be showing signs of greater realism. The National Coal Board's labour force has been reduced from 187,000 in 1983 before the strike to 155,000, with output per man shift in September some 8 per cent higher than the average for 1983. However, absenteeism is still high, nearly 10 per cent, in the earlier years of this decade.

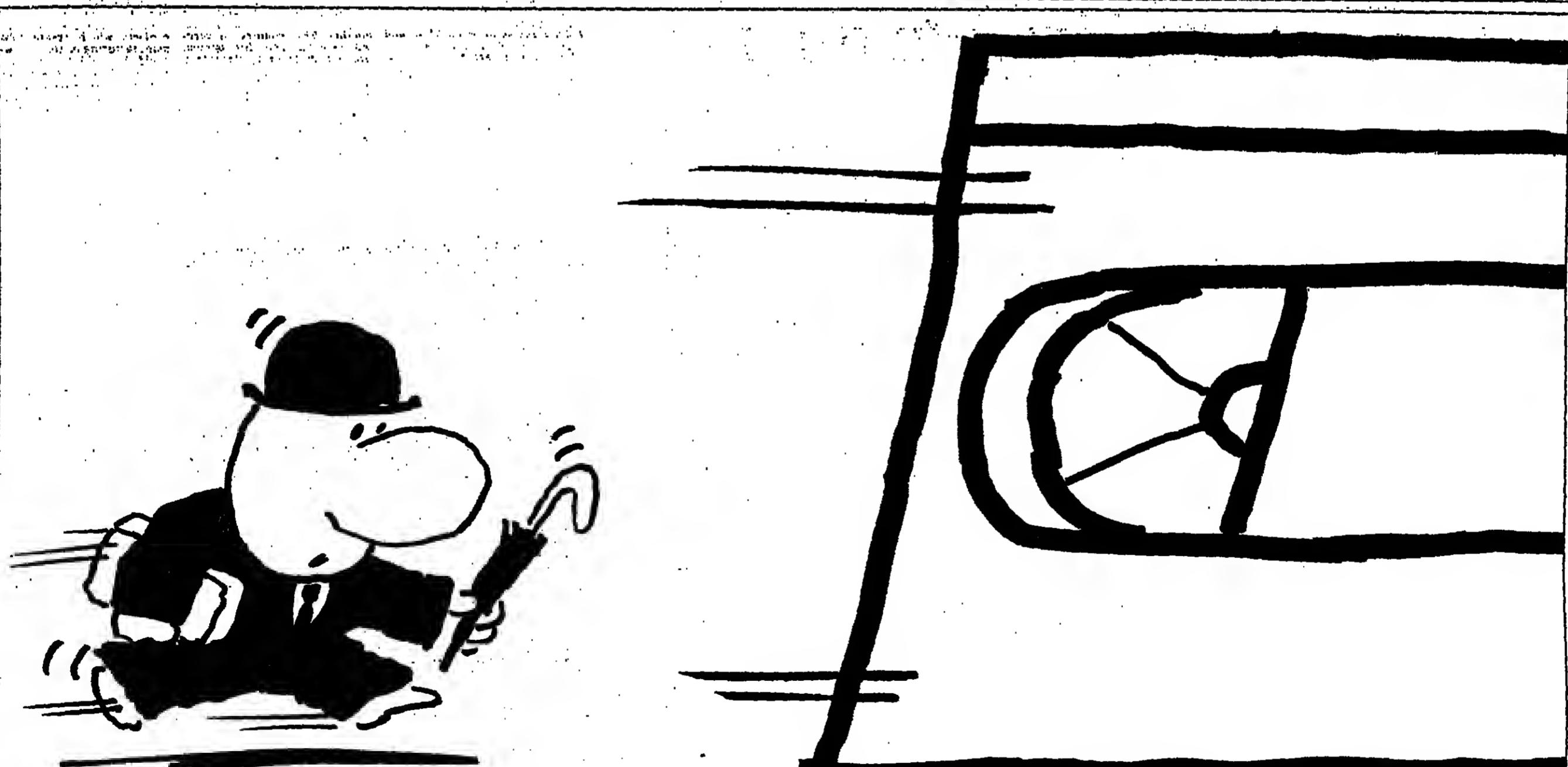
In the domestic market coal will have a tough fight for some years against the superior convenience of gas. However, gas prices are certain to go up as supplies from the southern basin of the North Sea are exhausted and replaced by supplies from more expensive fields. This will no doubt increase the attractiveness of coal and oil for industrial users.

In the generation of electricity the choice between coal and electricity will depend crucially on outcome of the lengthy inquiry into the Sizewell B Electricity Generating Board's plans to build a pressurised water nuclear reactor at Sizewell on the Suffolk coast.

The board would like this to be the first of a family of nuclear power stations which would raise Britain's dependence on nuclear generation from about 8 per cent to 42 per cent by the year 2020. This would leave coal-fired generation capacity at about 50 per cent, its present proportion, as the oil-fired stations were gradually scrapped or converted to coal.

One of the political lessons from the recent miners' strike was the need to secure a diversity of power sources. The oil-fired stations rescued the Government in 1984-85, but otherwise there seems little prospect that they can ever again earn their keep.

The nuclear programme is therefore seen as a political insurance as well as being a source of relatively cheap energy when the oil begins to run out.



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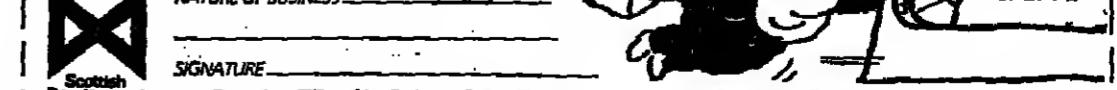
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There are at least 25 science parks associated with universities.

Even if the choice is strictly limited to those which have links with universities, the newcomer could go to a park from Dundee in the north to Brighton on the south coast. There is an even wider choice if the field is not restricted to university-linked parks.

There are at least 25 science parks associated with universities.

Academic Links

ANTHONY MORETON

ANY INVESTOR or businessman wishing to set up facilities on a science park has an enviable choice in the UK.

There are others attached to centres of higher learning outside the universities and there are still others which have the backing either of major public companies, new towns or commercial property organisations.

This gives the potential investor enormous choice because each park has a different conception of its role. Most of those founded by, or linked with, universities believe that science parks should be centres for the transfer of technology.

The UK Science Parks Association has defined a park as being a place where "a collection of high-technology industrial companies or research institutes are situated in attractive, well-landscaped surroundings, developed to a very low

density, situated near a major scientific university and enjoying significant opportunities of interchange with that university. They are a means of bringing suitable industry and applied research close to the sources of scientific progress."

Not all the parks follow this definition rigorously. At Cambridge, for instance, the first and still the biggest science park in Britain with some 35 tenants, there are several large companies. The largest is Napp Laboratories, the US-owned pharmaceuticals concern which, while concerned with high technology and fine research, is also a commercial producer. There are others on the park, some three miles from the centre of Cambridge, close to the main ring road, whose role is

Others would see their role differently. "Our park is not a separate entity from the university," according to Dr Peter Heriot-Watt Research Park associated with Heriot-Watt University in Edinburgh and chairman of the

UK Science Park. "It is one aspect of the technology transfer that goes on here. If a company on the park gets to the point where it begins to be involved in mass manufacture then we would expect it to move on, to find a larger home somewhere else."

Heriot-Watt is not alone in this approach. It is shared by Brunel on the western side of London near Heathrow airport, and Springfield House, attached to Leeds University, among others.

This approach may have come about because most British university-linked science parks are relatively small. Cambridge covers 13 acres, Surrey 70 acres and Heriot-Watt 50 acres but the average size is represented more by Stirling's 14 acres, Loughborough's three and East Anglia's 12.

Some science parks - Bradford, Leeds, Merseyside (associated with Liverpool University and Liverpool Poly) and Durham - are essentially single buildings so that the scope for the emergence of larger buildings is constrained.

Not all the science parks would accept the university-inspired definition, though. Warrington's Birchwood

Science Park sees itself as part of the science park structure even though it is not strictly associated with a university and is certainly not in university grounds. The Mid-Glamorgan High Technology Park, at Bridgend, in south Wales has been funded by the county council and the Deeside Park at Wrexham in north Wales has been developed by the Welsh Development Agency.

Within Liverpool, Plessey, one of the giants of the British electrical and electronics field, has been instrumental in developing Wavertree, and at Bristol Aztec West has been set up and run by a property company, primarily as a real-estate operation. It is conceivable that when these parks are fully developed they will be able to contribute to the development of high-technology industries just as much as the more "pure" science parks.

Such a dichotomy of thought could only arise in Britain. There is no way it could happen in the US, where science parks originated at Stanford in California and around Boston, Massachusetts, in the 1950s. Americans believe that if a company starts in a small way and associated with a university

department and grows to an appreciable size it should not necessarily have to move away from the university solely because of that growth.

Stanford now has companies on it employing thousands of employees. Boston has spawned high-technology industries in a wide arc, associated with Route 128, around the city.

The difference, according to Mr Russell Cox, chairman of MIT Enterprise Forum, of Boston, is one concerning "cultural and entrepreneurial values."

The difference, he believes, is not a matter of Europeans being unable to invent things or produce things. They can do it as well as people in the US. "What they do not do is turn those inventions into things with the same rapidity. We do not lay down rules about what should or should not be produced on a park. We just believe that if a company can grow good luck to it."

The closest place in the UK that approximates to Boston and Route 128 is Cambridge with its Cambridge Phenomenon, the sucking-in of high-technology industries into and around the university city. But the Cambridge Phenomenon

has not depended on the Cambridge Science Park even though they have grown over much the same period.

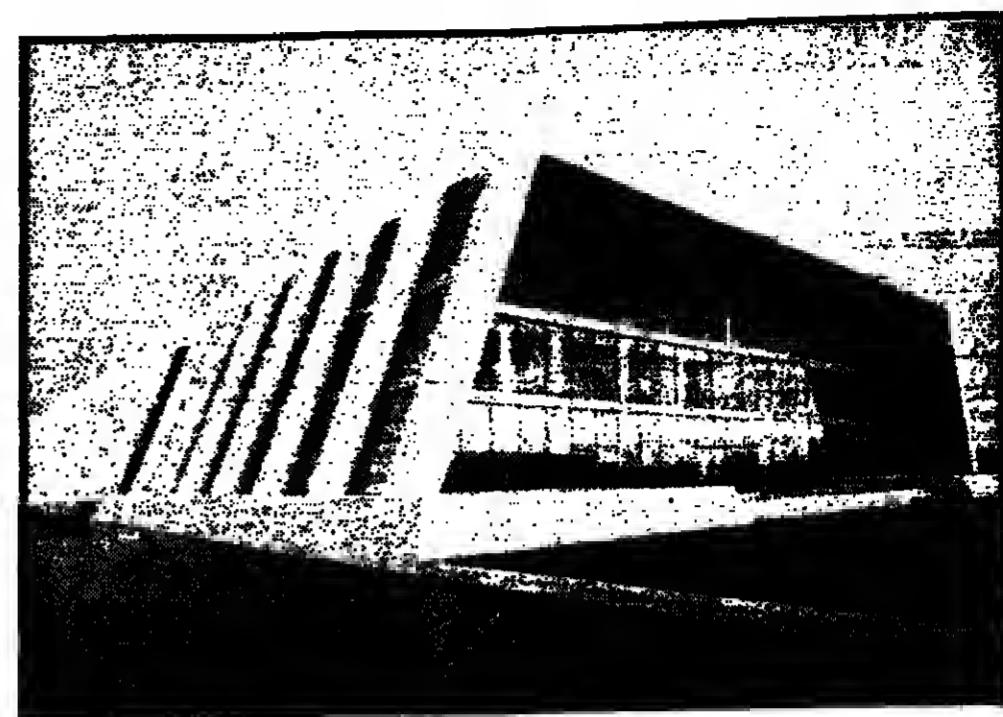
The Cambridge Phenomenon occurred because a large number of companies, few of which originated in the university, decided to set up operations near the university so that they could offer attractive living and working conditions for their employees and operate in an industrially high-class environment.

The wide choice of sites now available in Britain is a recent happening. Although both Cambridge and Heriot-Watt have been in existence for over a decade the big growth has been in the last four years and owes as much to negative factors (a need to find other income by universities following government financial cuts in 1981) as positive (the drive by the government in 1987 to set up the parks).

Investment has not by any means ground to a halt. Many of those associated with universities are in their infancy and there is a lot of growth to come. Outside the universities there are others in hand. For the potential investor Britain as a site offers an almost embarrassing choice.

Investing in Britain 8

Adherents flock to science park banner



More than 50 companies are now based at the Cambridge Science Park. Among them is the £20m complex (above) for Napp Laboratories which houses the pharmaceutical company's research, production and distribution facilities. A special six-page report on the renewal of interest in UK science parks appeared in the Financial Times on Saturday, November 30, 1985.

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Within Liverpool, Plessey, one of the giants of the British electrical and electronics field, has been instrumental in developing Wavertree, and at Bristol Aztec West has been set up and run by a property company, primarily as a real-estate operation. It is conceivable that when these parks are fully developed they will be able to contribute to the development of high-technology industries just as much as the more "pure" science parks.

Such a dichotomy of thought could only arise in Britain. There is no way it could happen in the US, where science parks originated at Stanford in California and around Boston, Massachusetts, in the 1950s. Americans believe that if a company starts in a small way and associated with a university

turn those inventions into things with the same rapidity. We do not lay down rules about what should or should not be produced on a park. We just believe that if a company can grow good luck to it."

The closest place in the UK that approximates to Boston and Route 128 is Cambridge with its Cambridge Phenomenon, the sucking-in of high-technology industries into and around the university city. But the Cambridge Phenomenon

Criticism brings policy changes

Education and Training

ALAN PIKE

THE EDUCATION and training systems are occupying a prominent position in the debate about Britain's future economic success.

Education and training are increasingly being treated as two parts of a single subject in reaction to past criticisms that there had been too great a gulf in Britain between a highly academic education system and an under-developed system of training.

Several factors have recently begun to bring the two elements of the system closer together. These include:

• Rapid changes in technology, producing new skills to be acquired throughout working life.

• Government desires to make education and training more responsive to the needs of industry.

• Pressures for change generated by youth unemployment which has, in Britain like the rest of the EEC, been running at historically high levels during the late 1970s and 1980s.

It is not only in Britain that employers are critical of the schools and universities for allegedly not meeting the needs of industry. The British Government is attempting to respond to the criticism with a number of policy developments, one of the most important of which is the Technical and Vocational Education Initiative (TVEI).

This scheme, currently operating or being introduced in most local education authority areas on a pilot basis, offers new combinations of theoretical and practical technical education for 14-18 year olds. Employers

have been offered a unique opportunity to work alongside teachers in curriculum development for the new courses, and Ministers believe TVEI will prove a stimulus for major reform in Britain's secondary schools.

The need to concentrate on courses which are relevant to industry's needs is one of the themes of the Government's higher education Green Paper, The Development of Higher Education into the 1990s, published last year.

Academics and opposition politicians have, however, been strongly critical of the Green Paper, saying that its approach will leave the country with an under-funded and contracting system of higher education.

Recent research has warned of a growing shortage of graduates to work in advanced technology sectors of British industry, and the Government has responded to this by trying to achieve a switch in student places at universities and polytechnics from the humanities to science and technology. Initial evidence shows that there will be resistance in many colleges to the levels of reduction in arts subjects which would be required to achieve the switch.

Powerful campaign

Skill shortages are not confined to graduates. The engineering industry, for example, faces shortages of craftsmen and technicians between now and the end of the decade and this is one of the factors behind a powerful campaign to reform Britain's system of industrial training.

By any standards of measurement, industrial training in Britain is underdeveloped compared with its leading international competitors. A survey conducted for the Manpower Services Commission indicates that the average British company spends only 0.15 per cent of its

sales turnover on training employees. Levels of 3 per cent are common in the US, Germany and Japan. State spending on training in Britain is relatively high — the shortfall is caused by the lack of investment by employers.

A major drive to reform industrial training in Britain is taking place around a three-pronged New Training Initiative devised by the MSC and Government. The three objectives are to reform traditional apprenticeship training, to change the way in which school leavers are prepared for work and to revitalise adult training.

Considerable progress has been made during the last few years in replacing time-served apprentices with training to modern, relevant standards.

Two years ago the Youth Training Scheme was introduced — Britain's first attempt to give all school leavers who do not continue into higher education a systematic preparation for work. Next year YTS is being extended from one to two years.

Britain had, prior to YTS, become increasingly isolated among industrial nations in allowing young people to go straight from school to work without any formal vocational preparation.

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surveys continue to show that British employers are generally less willing than their rivals overseas to see training as an essential business investment. In Germany, for example, it is common for up to half of a company's workforce to be undergoing skills training at any time, while about one-third of the working population in the US are involved in vocational education.

Japan — with a generously funded education system — has a culture of training deeply rooted in its industrial sector.

Persuasion

The present Government has preferred to use persuasion rather than compulsion in its attempts to improve industry's training performance. Most of the statutory industrial training years have been abolished four years ago and replaced with voluntary arrangements, largely to modern degree of effectiveness. This contrasts with the position in Germany, where the training system is run by employers through chambers of commerce with statutory backup, and France where there is a national training tax.

The voluntary approach reflects the Government's view that employers are the main providers of training, and should therefore fund it and run it. Efforts are being made to bring together groups of employers to examine and respond to training needs at local level, and to improve links between employers and further education colleges.

There are also a growing number of schemes designed to take advantage of new technology and modern training in more flexible and innovative ways. One of Britain's real post-war educational achievements has been the Open University, and an Open Tech has now been founded to use similar distance-learning methods to offer retraining for adults at technician level in industry.

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Cumbria

Investing in Britain 9

Job fears temper shopfloor climate

LABOUR RELATIONS in the UK used to be characterised in the term the British disease, a lack of commitment to work and to the company, translated into an apparent readiness to strike virtually instantaneously, on often the thinnest — if any — of pretexts.

Foreign investors in the UK seemed especially prone to outbreaks of the disease: seen as distant, wealthy multinationals, they were a political, as well as an industrial target, for the militancy in the 1970s which lay behind certain trade union thinking and approaches at that time.

That British labour relations have undergone a sea change might be hard to tell in a year which has seen some of the most violent-ever scenes in a UK industrial dispute — the 1984-85 miners' strike — pumped nightly into people's general lives through the TV screen; but it has.

In international terms, the facts bear it out. The UK occupies today a middle-ranking international place in terms of days lost through strikes (though some of its most important competitors — West Germany, France, Japan — are below it), and though the CBI, the employers' body, is concerned that its labour costs are rising in comparison with competitor countries, they start from a low base: a survey by Institut der Deutschen Wirtschaft (IDW), the West German employers' research body, of comparative labour costs in 18 leading countries places the UK 15th, with its costs much lower than those of the US (1st), West Germany (5th) and Japan (12th).

Co-operation

That such international trends, combined with the UK's position as a point of entry into the EEC market, have not escaped foreign investors is clear from the number which have established manufacturing plants here: IBM in the south and Scotland, followed there by a host of US semiconductor companies; the Japanese in south Wales, and elsewhere too.

Labour relations were a problem in these companies' thinking — but not an overwhelming one. Forthcoming research by Professor John Dunning of Reading University on Japanese investment and practices in the UK shows industrial relations to be a consideration in siting here, but less of a minus factor than, for instance, problems of product supply and quality.

Primarily, the change in UK labour relations has been enacted by the sharp rise in British unemployment, from a national average of 5.8 per cent (some 1.3m people), when the Conservative Government came to power in 1979, to 3.17m now.

Its impact has been widespread, reducing strikes at one end of the spectrum, and helping to engender forms of workforce co-operation unthinkable in the UK ten years ago. It has clashed, for instance, union membership rolls, down almost 20 per cent from their 1979 levels. In the 1970s when UK unions were at the zenith of their power, the leader of the largest union, the transport workers, was seen in opinion polls as more powerful than the Prime Minister.

Falling numbers — and, more importantly, the decline in the unionisation of the workforce — have led to tightening finances, and to unions adjusting their sights, and their ambitions. That the Government has actu-

Working Days Lost

	Working days lost by industrial disputes per 1000 employees, 1983
Italy	860
Spain	590
Canada	460
Ireland	400
Finland	360
New Zealand	350
Australia	320
United Kingdom	177
France	90
Denmark	40
Sweden	40
Netherlands	30
Japan	10

Source: Department of Employment Gazette, 1983.

vely sought to promote this is clear: elected in substantial part on a platform to reform Britain's unions, the Conservatives set about it with a will, but with intelligence too. Their piecemeal, step-by-step approach, building for them gain upon gain, has left the unions mostly quelling for a practical and adequate response.

The effects have been enormous. At local level, for instance, faced with the acute reality of the recession — jobs going, plants closing — union members have been prepared to reach radical, new agreements which provide for a stretching away of collective redundancies, with complete interchange of jobs, in such sites as Shell's Carrington plant in Manchester, or Borg Warner in south Wales. Even strike-free deals have been mainly but not wholly signed by the EETPU electricians union, principally with the Japanese, in high technology plants such as Toshiba in Plymouth or Sanyo in Lowestoft.

These agreements can be likened to another development, the acceptance of new forms of more flexible working, such as the development in some companies of a "core" of permanent employees supported by part-time and other workers on the periphery.

At national level, the changes haven't been so thoroughgoing. Indeed, like the recent internal TUC row over accepting Government money for union bailiffs, it's arguable that the changes to date could not have taken place but for an upward movement of osmosis from the members to the leaders. But change there has been; in particular, the 1983 General Election result, showing the largest-ever number of union members not voting for the Labour Party, severely discomposed union leaders.

It forced them, through the TUC, into a major and still continuing reconsideration of their whole strategy and purpose.

Britain's unions still face problems — of legitimacy, of credibility, and of membership in trying to break into the new, expanding service and high-tech centres, and in trying to deal with growing non-unionism.

Companies like Nissan, for which the securing of a sophisticated, co-operative strike-free deal with a single union was vital to its decision to establish itself in the UK, have shown faith in UK labour. The challenge facing British labour — one being accepted at local level, and in part and gradually nationally — is to match such faith.

Philip Bassett

ATTRACTING INDUSTRY TO SCOTLAND

A new challenge

LOCATE IN SCOTLAND in favour of a more selective approach from the offices of the Scottish Development Agency, the semi-official industrial promotion body for Scotland. It combines the promotional resources of the SDA with the grant-giving capacity of the Government's Department of Trade and Industry for Scotland.

Foreign companies can get both information and government financial assistance from LIS which has eliminated some of the counter-productive, competitive marketing by the various regional bodies such as the five Scottish new towns or the regional and district authorities, likely otherwise to join a queue of applicants outside the offices of big US electronics companies.

LIS has the advantage of offices in Stamford, Connecticut, Chicago, Houston and San Francisco, to provide forward-looking intelligence on industrial development facilities in Scotland which will draw on the resources of the country's universities and technical colleges. Because R & D is brought in more management jobs are created and the company sets down deeper roots. It is the pure assembly operations which get closed when the parent company goes through a bad patch.

Companies like Hewlett Packard in South Queensferry and NCR in Dundee have developed new product lines in assembly, packaging and drawing engineering talent which might otherwise have gone south or even abroad in search of work.

Mark Meredith

Location Preference

Order of preference by the US electronics industry

Previous year's ranking	Country	Number of companies out of 235 that have either chosen or shortlisted the country in question
1	UK	84
2	Ireland	50
3	W Germany	49
4	Mexico	37
5	Japan	25
6	France	20
7	Netherlands	23
8	Taiwan	25
9	Canada	22
10	Belgium	17
11	Spain	15
12	Austria	14
13	Italy	14
14	Barbados	13
15	Switzerland	12



Mr George Younger, Secretary of State for Scotland.

"They had different presentations. Ireland emphasised the central location in Europe. The German presentation was effectively done but the problem would have been with the language and with the overhead costs, it would have been expensive," Mr Morrison states.

Locate in Scotland followed up its initial package with proposals for possible plant sites.

Inward investment had largely tended to favour other new towns like East Kilbride, or Livingston. With Irvine, what SCI wanted: a building in place and space alongside the plant for expansion.

Financial incentives from government were a stimulant but not the deciding factor according to Mr Morrison. "It was more like the icing on the cake," he says.

While this arrival demonstrated secondary growth of support industries for electronics, Japanese silicon producer Shin-Etsu was to follow — SCI on the encouragement given to companies to service and support the big multinational pro-

research and development which the planners wanted to see in inward investment. These facilities are seen as requiring a higher calibre of management and drawing on the academic resources of Scotland.

A research and development operation also means putting down greater roots and makes a company less vulnerable to closure when the US or Japanese parents fall on hard times.

Mr Morrison denies, however, that SCI is a "branch office" liable to closure. The nature of business, making components for other manufacturers does not require research staff. SCI carries out work under contract, most of it loading printed circuit boards for the big Scottish-based producers. The plant employs about 400 staff.

Equal weighting

"We rise and fall on the level of success we have in operating market conditions. SCI will not pump in money regardless, but we have no problem with new investment if it is justified," he says.

A foreign plant's commercial performance is the real commitment in Mr Morrison's view. "We have an equal weighting with industry in the States. If we have a good order book, this would not be transferred to the States and the plant shut down."

The corporate structure of SCI means each plant is responsible for its marketing and overheads, which encourages autonomy and local initiatives.

Locally based marketing has been a benefit in the current slump within the electronics industry in the US. The European market has not declined to the same extent and demand has been sustained.

M. M.

Why SCI found the package attractive

THE SCOTTISH electronics industry got a boost with the arrival of SCI of Alabama.

From its base in Irvine New Town in the southwest of Scotland, SCI manufactures components for the rest of the industry. A decision to set up a shop in Scotland demonstrates the encouragement given to companies to service and sup-

port the big multinational pro-

ducers already present.

Mr Sandy Morrison, a Scot who is managing director of the £12m SCI plant, reckons that the infrastructure in Scotland supports high technology companies was the chief incentive. The plant, the staffs, and the back-up were there, he says.

The West Germans, French and Irish were also competing hard for mobile US companies.

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Investing in Britain 10

Freeports

Name	Area (acres)	Management	Number of companies in occupation†	Opening date*	Value of goods handled £	Contact
BELFAST	72.5	Northern Ireland Airports	1 with 2 in offing	Dec 1985	n/a	Mr F. McGinnigan (0233) 229271
BIRMINGHAM	11.8‡	West Midlands Freeport	none	mid-1986	n/a	Mr R. Taylor 021-767 6025
CARDIFF	40.0	Cardiff Free Port	several potential	mid-1986	n/a	Mr K. Carroll (0222) 488121
LIVERPOOL	600.0	Mersey Docks and Harbour Co.	2	Dec 1984	£1m	Mr F. Robetham 051-260 2220
PRESTWICK	35.0§	Freeport Scotland	2 + public warehouse soon	April 1985	n/a	Mr Kelly (0222) 749823
SOUTHAMPTON	22.0¶	Southampton Free Trade Zone	none but public warehouse in operation	Nov 1985	n/a	Mr A. Kent (0703) 335995

* Designation date for all freeports was August 6 1984; these dates represent opening of actual operations.
 † Business is transacted in two ways, namely, owner/occupier of private warehouse facilities or use of public warehouse system. At this early stage a lot of business is carried on through the public warehouse systems, by so-called "free zone traders".
 ‡ Phase I Expansion in Phase II involves further 13 acres.
 § Option available on a further 142 acres.
 ¶ Phase I, with 500,000 sq. ft. of existing warehouse facilities, Phase II (next year) will make available a further 54 acres.

Research: Sue Hopkins.



INFRA-STRUCTURE

A reshaped telecoms system and unmatched international air services are important assets. Investment has also been taking place in ports, road and rail facilities, and a fixed link to the Continent is now in prospect.

DURING THE past five years, Britain's telecommunications industry has been radically reshaped by a series of sweeping policy changes unique in Western Europe.

The changes have led to the removal of the far-reaching statutory monopoly of British Telecom, formerly part of the Post Office, and the opening of the UK telecommunications market to competition. The Government has licensed Mercury Communications, a subsidiary of Cable and Wireless, to build and operate a second national telecommunications network and authorised two rival consortia to run cellular mobile radio systems.

These moves, which got under way in late 1981, were followed in November 1984 by the sale to private investors of just over half the Government's stake in BT. The share issue, the largest anywhere in the world, raised almost £6bn.

The British environment has undoubtedly produced some tangible benefits, notably by stimulating the introduction of a wider range of competitively priced products and services. But it has also been marked by considerable controversy, particularly over BT's place in the new industrial order.

For a big container ship, the British Ports Association pointed out, light dues can cost more than £20,000 a call, even though it may have only a few hundred containers for the UK. Such charges which could total more than £1m a year for one line, "represent a real and dominant deterrent for the shipowner and have resulted in lost trade for some of Britain's larger ports."

For the ports, such matters are vital. Ports are a key element in the transport industry, which represents some 4.5 per cent of the UK's gross national product. Total turnover of the industry exceeds £50bn a year and it employs over 1m people, including railways, roads, airlines, airports, shipping, ports and other related activities.

Mr Keith Stuart, chairman of Associated British Ports, which owns 19 ports including Southampton, said in a recent speech that some countries used transport as a lever to help overall economic growth, "even if this means massive subsidies and the over-provision of infrastructure."

It has cut tariffs for some of its most profitable operations, such as long-distance and overseas services, and is competing vigorously to win international traffic from neighbouring European countries. About a third of large US companies operating on this side of the Atlantic hub their European communications networks in Britain.

Internally, BT has reorganised its monolithic operations into decentralised profit centres and started to introduce proper financial and management information systems. Its huge staff of 230,000 has been trimmed by 17,000 people.

Subsidies

In a dig at ABP's competitors across the Channel, he added: "A prime example of this philosophy is the policy of many north European governments towards their sea ports, which are used as at Rotterdam or Le Havre to generate the growth of industry and to capture freight traffic for the whole of the Continent at a cost of billions of guilders and francs in annual subsidies."

Neither the UK Government nor the industry is likely to persuade other countries to change their attitudes to ports. But UK container ports do not want to see the big ships calling on the Continent and transhipping cargoes in smaller vessels to the UK.

Hale the trade handled by British ports by value is with the EEC and 45 per cent by weight, the other main trading areas being Scandinavia and the Baltic region, and North America. Last year, a record 445m tonnes of freight were handled, 4 per cent up on 1983.

In tonnage terms, Sullom Voe in the Shetlands is the largest. But this is almost entirely in oil products because of its position at the edge of the North Sea. Heading the list of ports in the traditional sense, handling a variety of cargoes and ships, is London.

With the rise in EEC trade and the advent of containers, the Port of London Authority has had to shift its centre of operations away from the city towards the coast. It is now based in Tilbury, Essex, 15 miles down the River Thames from London.

Whereas it employed more than 10,000 people in the mid-1970s, the numbers are now down to around 3,000. Altogether, the UK port industry employs some 12,000 people compared with 41,000 in 1973 and 82,500 in the peak year of 1981.

Despite the problems, there is plenty of investment in the pipeline. Sealink, the ports and ferry company, has ambitious plans for Harwich, slightly south of Felixstowe on the east coast, while Great Yarmouth to the north also wants to expand. The pressures to compete are becoming ever more intense.

BT has also shown a much more demanding attitude towards its suppliers. It has begun to drive a harder bargain over price, quality and delivery and to spread its purchasing beyond traditional suppliers such as Plessey and GEC.

Tougher market conditions and the mounting development costs required by telecommunications manufacturing have begun to spur industrialisation moves. In early December, GEC made a £1.18bn bid to acquire Plessey, which with GEC makes the System X digital exchange. At the time of writing, Plessey was resisting the bid.

Contrary to the Government's hopes, however, new UK manufacturers have not sprung up to take advantage of market opportunities. The main beneficiaries so far have been foreign companies, such as Sweden's L.M.

Telecoms
GUY DE JONQUIERES

Ericsson, which is supplying BT with digital public exchanges.

Further controversy has been generated by BT's £180m bid last year for 51 per cent of Canadian equipment manufacturer Miel. Though BT insists that it is mainly interested in Miel's international operations, the Government decided, after heavy lobbying by GEC and Plessey, to refer the bid to the Monopolies and Mergers Commission.

So far, BT has managed not only to maintain its market dominance but even to extend it in some areas. When shares in the company went on sale, critics accused the Government of doing little more than privatising a monopoly. They argued that the Government's goal of ensuring a successful sale to large numbers of investors contradicted its commitment to curb BT's monopoly and encourage competition.

No competitor of anything like equal size has yet emerged to challenge BT. However, its grip on the market may begin to loosen in the next few years as a result of the activities of the 18-month-old Office of Telecommunications (Oftel) and of Mercury.

Oftel is the government agency charged with regulating the telecommunications market and ensuring that BT and other participants observe the terms

of their licences from the Government. BT's licence contains special conditions, including obligations to maintain a national telephone service and to keep the average annual tariff rise for many of its inland services three percentage points below the retail inflation rate. Though Oftel has the power to prosecute offenders and to change their licences, it is not authorised to license new entrants into the market. This authority remains with the Department of Trade and Industry, which has pledged that BT and Mercury will remain the sole operators of telecommunications networks until 1989.

Nonetheless, Oftel and its director general, accountancy professor Bryan Carsberg, have started to make an impact. Oftel's most important action so far was its ruling late in 1984 on the arrangements for the interconnection of the BT and Mercury networks.

This was a crucial issue for Mercury. Though the company had almost completed building a modern optical fibre trunk network linking major English cities, it had few local circuits of its own. It had therefore relied heavily on using BT circuits to reach customers located far from its own trunk network.

The Oftel ruling, which met most of Mercury's demands, has transformed the company from a struggling newcomer into a vigorous business which is expected to have annual turnover of several hundred million pounds by 1990. BT, not surprisingly, was displeased, though it decided not to challenge the ruling in court.

BT has met obstacles on other fronts, too. Its proposal to launch jointly with International Business Machines (IBM) an advanced data communications network was rejected by the Government in 1984.

During the next few years, UK policy seems likely to have to continue striking a balance between the interests of telecommunications users, BT shareholders and the supply industry. Experience to date suggests that this may prove quite a testing task.

Further ahead, the prospects are clouded with many uncertainties. The Labour Party has said it will renationalise BT if it regains power though it will not be a high priority.

If the Conservative government is returned to power it will review its telecommunications policies in 1989.

LLANTARNAM PARK

HIGH TECH PARK.

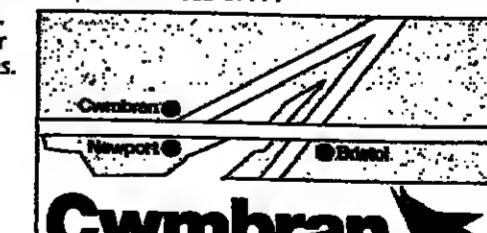
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Investing in Britain 11

British Airports Authority: Passengers		
	(Year ended October 1985)	
	Moving annual total (000s)	Percentage change from October 1984
Heathrow	31,115.5	8.4
Gatwick	14,750.5	7.6
Stansted	521.5	1.7
South East airports	46,387.5	7.9
Glasgow	2,880.0	-1.7
Edinburgh	1,578.7	7.5
Prestwick	240.9	1.3
Aberdeen (fixed wing)	1,084.4	-0.5
Aberdeen (helicopters)	606.7	-2.7
Aberdeen total	1,691.1	-4.0
Scottish airports	6,182.7	-0.1
Total	52,570.2	6.9

Source: British Airports Authority



On average it costs £14 an hour to run a lorry, and up to £24 an hour for heavier vehicles. Greater investment in the UK road network would reduce delays, cut costs and boost efficiency, say the haulage organisations.

Tougher times for hauliers

Road Transport

PHILLIP HASTINGS

INCREASING pressures from a wide variety of sources are making life ever more complicated for the British road transport industry.

Long gone are the days when virtually the only qualification needed by a haulier was the ability to drive and maintain one or more trucks. Now, any haulier looking to run a successful business needs, in addition to be familiar with a range of different domestic and EEC laws, finance, insurance, economics, industrial relations and security.

The sort of competitive pressures now being faced by road operators were highlighted in a survey carried out by the Freight Transport Association which represents the transport interests of some 14,000 companies throughout trade industry, companies which themselves often operate large fleets of commercial vehicles on an over account basis.

The survey set out to study the changes in road haulage rates over an 11-year period between 1974 and 1984, using as an example the case of a 20-tonne consignment moved from London to Birmingham.

The actual figures, adjusted for inflation, showed that the rate per tonne within that overall consignment in fact dropped substantially during the period under study, while costs were rising.

In 1974 the FTA survey showed a rate of £9.5 per tonne, in 1979 a rate of £8.3 and in 1984 £6.8—representing a fall in real terms over the 11 years of 27 per cent.

Using Department of Transport figures, the FTA also went on to spotlight a number of other trends in the road transport sector, all of which highlighted the increasing economic pressures on those moving freight by road.

For example, said the FTA, there had been a large increase in the volume of consignments transported by road, from 58.9bn tonne/kilometres in 1974 to 106.9bn tonne/kilometres in 1984. During the same period, inflation-adjusted figures for expenditure on road freight showed a marked drop, from £25.9bn to £20.1bn.

Reduction

Using those figures, the FTA calculated that expenditure per tonne per kilometre, again allowing for inflation, dropped from 29p in 1974 to 15p in 1984. These figures show that over the period studied, there was a remarkable reduction in unit costs for road transport. At the same time, they give the lie to accusations that road haulage is inefficient," said the FTA's director of planning, Richard Turner.

The increase in maximum vehicle weights from 32.5 tonnes to 38 tonnes in 1983 has also been an important factor in improving efficiency. By the end of 1984, nearly 20,000 38-tonners had been registered, about 80 per cent of them on the public haulage side rather than with own account operators.

"In 1984, those 38-tonne vehicles accounted for 18 per cent of all goods moved by road within Britain so they really are being used very efficiently and have already proved how much they were needed. Those 20,000 vehicles did the work of 24,000 32.5 tonners, based on

the average work they were involved in," Mr Turner said.

"Also in 1984, the fact that we had 20,000 38-tonners saved nearly £33m in road wear costs and industry some £165m in operating costs."

Currently, hauliers are pressing for the 38-tonne maximum lorry weight to be increased to 40 tonnes but there are many other areas of legislation which they claim need to be changed further to boost efficiency in the road transport sector.

Recently, for example, the EEC Council of Ministers agreed to amend the rules on lorry drivers' hours to lengthen the legal driving day from eight hours to nine, with an improved limit for continuous driving.

However, the FTA believes that the rules will still remain a "complex tangle" unless the British Government takes action to wipe out the remaining 1988 Transport Act rules which were superimposed in Community law.

Investment

Both the FTA and the Road Haulage Association which represents haulage companies also argue that there needs to be greater investment in Britain's road network to cut down on the delays which push up costs and reduce the efficiency of road transport operations.

The FTA claims that on average it costs £14 per hour to run a lorry, £24 an hour for heavier vehicles. In national terms, a 20-minute delay on all freight traffic would cost the economy £2.25m, it claims.

Other factors worrying the road transport industry, road hauliers and own account operators alike, include frequently changing fuel costs—fuel is reckoned to account for 24 per cent of hauliers' overall costs. The RHA protested that a recently-announced increase of 1.85p or 1.6p per litre in the price of scheduled delivery followed seven increases and four decreases during the course of 1984.

Also worrying road transport operators are the increasing number of lorry bans being imposed. The doomed Greater London Council, for example, is due to introduce its ban on lorries over 16.5 tonnes gross weight at night and weekends on January 31.

One other increasingly important factor is, far as the future shape of Britain's road transport industry is concerned involves the changing patterns of distribution operations, particularly where High Street deliveries are concerned.

The trend towards retailer-dominated distribution set-ups with their large-scale, supposedly super-efficient systems, combined with the even more complex nature of road transport operations, is leading more and more industrial companies to opt out of owning their vehicles or using haulage operators. Some have changed over to contract hire arrangements; others are now going a stage further and pulling out of transport operations altogether, handing over their whole distribution operation to third party specialists.

Faced with the prospect of more and more general freight traffic being handled by large distribution organisations, many hauliers are increasingly looking either to diversify their operations, for example by acquiring warehousing so they can undertake more general distribution activities, or to move into specialist sectors, for instance by providing express delivery/parcels services.

Growth pattern set to continue

Air Transport

MICHAEL DONNE

ALTHOUGH A substantial series of changes is about to oversee the UK air transport industry through the privatisation of both British Airways and the British Airports Authority, and a change in the structure, if not the direct ownership, of many local authority airports, the industry as a whole is inexorably growth-oriented.

Even during the worst part of the economic recession of the early 1980s, the effect on the industry generally was to flatten the upward movement of the traffic curve, not to depress it. Subsequently, despite a major forecast to the contrary, the market has been assumed and for some individual months of the past summer it has reached proportions akin to those very high rates of expansion experienced just before the mid-1980s, and further expanded by the year 2000.

Statistics issued by the British Airports Authority, which owns seven major airports (including the biggest, Heathrow and Gatwick, as well as Stansted, Edinburgh, Glasgow, Prestwick and Aberdeen),

illustrate the point.

During October, after a hectic summer, the Authority reported overall growth compared with the same month in 1984, of 4 per cent, to close on 4.64m passengers, with Heathrow gaining 2.7 per cent to just over 2.72m and Gatwick 8.3 per cent to over 1.8m.

But for the 12 months to the end of October, the overall growth was no less than 10 per cent to an overall BAA total of close to 52.6m passengers, with Heathrow gaining 8.3 per cent to over 31m passengers, and Gatwick gaining 7 per cent to 14.75m passengers.

Many other industries would appreciate growth patterns of this nature. For the air transport industry, the overall forecast is that such growth is likely to continue through the rest of the 1980s and into the next decade, at an average annual rate of between 4 and 6 per cent. If this is fulfilled, the current overall total volume of UK air traffic, of well over 60m passengers a year, could well be doubled by the mid-1990s, and further expanded by the year 2000.

The Department of Transport's forecasts for future UK air travel, issued in July, 1984 (before this past year's rapid growth) indicated that by 1985, the overall volume of traffic would lie somewhere

between the two extremes, the low forecast was 105.8m, and the high forecast 172.8m.

It is to meet traffic growth somewhere between the two extremes that the Government, the British Airports Authority and the airlines are now effectively regeering the industry.

The changes that will take place will be substantial. Over the next few weeks, plans will be crystallised for the projected privatisation of British Airways, the national flag carrier, some time in the mid-summer of 1986, with the sale generally expected to raise around £1bn for the Exchequer.

In addition, some time in 1986, although no precise date has been fixed, the Government intends to sell off the British Airports Authority, while at the same time restructuring it into a holding company with seven separate subsidiaries each running one of the Authority's seven airports.

Current estimates put a capital value on the privatisation of the Airports Authority at £500m, but this figure seems low in the light of the substantial sums, running into many hundreds of millions of pounds, the Authority is spending on the development of its airports—the new Terminal Four at Heathrow, the new Terminal

Two at Gatwick, and the development of Stansted, in Essex, into initially an airport capable of handling 7m to 8m passengers a year, with capacity planned to 15m a year, and the longer-term possibility of eventual growth to 30m, although the latter is by no means certain and may never even be attempted.

At the same time, the Government intends to restructure the ownership of many of the 23 local-authority-owned airports in the UK, including the biggest, such as Manchester, Birmingham, Liverpool, Newcastle and others, by obliging them to become public limited companies. Initially, the Government will permit the existing local authorities to own the shares in these companies.

Profitable

Eventually, however, it has made it clear that it will like to see the local authorities surrender some part of their shares to private investors or "blockholding" share in both BA and the BAA, so as to ensure the long-term power of veto over any foreign take-over bids.

In any circumstances, British Airways and the British Airports Authority would be attractive investments—highly profitable organisations in a long-term rapidly expanding market,

eventually result in a more dynamic, profitable UK air transport industry remains to be seen. Certainly, on present

ratings, British Airways is one of the most profitable airlines in the world, with £205.9m net in 1984-85, while the British Airports Authority has been consistently profitable throughout its history.

Many of the local authority airports, however, either lose money or are only marginally profitable and it is to improve this situation that the change of ownership and the potential injection of private capital is planned.

The extent to which foreign investment capital will be permitted in either British Airways or the British Airports Authority, or in the local authority airports, remains to be seen.

It seems likely, however, that some limits will be placed on the participation of foreign capital and certainly that the Government, as with other state organisations privatised to date, will retain one-third or "blockholding" share in both BA and the BAA, so as to ensure the long-term power of veto over any foreign take-over bids.

In any circumstances, British Airways and the British Airports Authority would be attractive investments—highly profitable organisations in a long-term rapidly expanding market, and with both organisations possessing vigorous and competitive programmes for their future development.

For the rest of the UK air

Marks & Spencer. Investing in the future.

Marks & Spencer continues to be at the forefront of British investment, we are embarking on the biggest development programme in our history—£480 million over the next two years.

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St Michael

Investing in Britain 12

Support for innovation given priority

BUSINESSMEN THINKING of building a factory, starting a company or expanding an existing facility in Britain will find no shortage of advice or guidance. Help is at hand from central government (largely through the Department of Trade and Industry), from local authorities (which are taking an increasingly active role in the regeneration of local economies), from regional development bodies like the Scottish Development Agency and the Welsh Development Agency, and from the private sector in the form of banks, merchant banks, and the growing numbers of venture capital funds.

Support for innovation is among the Government's specific priorities. There is, for example, a scheme which provides up to 25 per cent of eligible costs to encourage approved R and D. There is also a new programme which covers collaborative research in advanced information technology between industry, academic institutions and other research organisations; and there is the European Strategic Programme for Research and Development in Information Technology (ESPRIT) which was adopted by the European Community to support R and D programmes in microelectronics, software technology, advanced information technology, office systems and computer integrated manufacture.

Business problems

The DTI, meanwhile, awards grants to help companies obtain advice on business problems and opportunities, and to provide information. Many of these services, such as those for design, manufacturing and quality assurance, are directed towards small and medium-sized businesses, but the support is available to all firms where advanced manufacturing technology, biotechnology and microelectronics applications are concerned.

Companies looking for a package of special incentives may well turn to one of the regional development agencies. The Welsh Development Agency, founded in 1976, was set up to put new life back into the Welsh economy and improve the business environment in Wales. With 20m sq ft of space, the Agency can provide a wide variety of

Sources of aid

TIM DICKSON

factory units; it offers equity and loan funds on commercial terms; and its Business Development Unit specialises in management and technical advice to firms with fewer than 50 employees.

The Scottish Development Agency supplies equity and loans and aims to bridge the finance gap or complement private sector sources. Its electronics division helps evaluate and set up new high technology businesses and the SDA keeps an investment register to enable businesses with problems to find stronger partners.

Northern Ireland Industrial Development Board

There are between 150 and 200 enterprise agencies— their effectiveness varies depending on the quality of the director but the chances are that any one agency will be well informed about the best sources of finance and property in their locality.

In the private sector, bank lending to small and medium sized businesses is dominated by the four major high street clearing banks and the UK merchant banks, and the increasing number of aggressive US banks offering more sophisticated and individually tailored lending packages.

They can, for example, make loans of up to 90 per cent on the secured value of buildings, dispose of land below its market value, and invest local authority pension funds in local businesses. There is also the general power of Section 137 of the 1972 Local Government Act under which grants and loans can be awarded to a total value equivalent to a 2p rate in the pound.

Several local authorities—notably the Greater London Council and the West Midlands—have established substantial enterprise boards under Section 137. Typically they offer a mix of loan and equity to medium sized local businesses and are aimed at breathing new life into established businesses and

stimulating employment. Enterprise boards are distinct from enterprise agencies, which are often supported by local authorities but which are typically local partnerships between councils, companies in the private or public sector and the professions in a given area.

Initially, enterprise agencies concentrated on encouraging the growth of successful small businesses through basic management training and advice—they do not lend or invest money—but some have recently expanded into the provision and management of small business workshops, agency work for the Government's Youth Training Scheme, further involvement in training and education, and closer liaison with the Government's Information Technology Centres.

Private sector

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ADVICE

The range of advice and assistance available has expanded rapidly, with national, regional and local government, the professions and self-help groups all keen to assist potential investors.

tor or "round" of finance, taking in everything from the pure start-up to the mature management buy-out.

A scheme that has had a major impact is the Business Expansion Scheme. Under which individuals in the UK can gain income tax relief at their highest rate for qualifying businesses up to £40,000 per annum until April 1987. Companies are eligible if they are "unquoted", if they carry on a qualifying trade (which includes most manufacturing but excludes financial services), and if they are not controlled by another company.

German Direct Investment in UK

Total investment until December 31 1984 (net transfers since 1/1/1982) DM (£m)

1965	142
1970	594
1971	714
1972	754
1973	862
1974	1,493
1975	1,709
1976	1,965
1977	2,115
1978	2,358
1979	2,443
1980	2,614
1981	2,969
1982	3,560
1983	5,018
1984	6,109

Source: Federal Ministry of Economics, Bonn.

Keeping Europe's door ajar

The Japanese connection

ROBIN REEVES



In manufacturing, the Japanese are setting management and performance standards which UK-based companies now seek to emulate.

A SENIOR Japanese executive working in Wales was recently asked what was required to encourage more Japanese manufacturing investment in the local economy. "An increase in EEC trade restrictions," he replied mischievously.

For all the lip service that is paid regularly in the recessionary climate of the 1980s to the importance of maintaining free trade between OECD economies, the fact remains that a high proportion of Japanese inward investment into the UK and Europe has been initiated by EEC trade restrictions, real, threatened or feared, rather than the growing inefficiency or impracticality of supplying expanding UK and EEC markets from Japan.

There are a number of notable recent examples. No inward investment project was sought for more keenly by UK local authorities than the Nissan vehicle assembly plant, now under construction in the north east of England. The venture promised eventually to create as many as 5,000 jobs, making it the largest job-generating manufacturing project to have appeared on the UK inward investment scene in recent times.

But it is debatable whether Nissan would have contemplated making the investment in the first place but for the "voluntary" ceilings on Japanese car imports into the UK and other EEC markets and the restraint this has placed upon the company's growth.

Similarly, Komatsu of Japan, now the world's second largest construction machine maker, announced last month (December) that it was investing £12.3m in the former Newcastle-upon-Tyne premises of its main rival, Caterpillar Tractor of the US, to produce hydraulic excavators and wheeled loaders. Caterpillar abandoned the factory last year creating 1,000 redundancies.

Komatsu acknowledged that its decision to manufacture in Europe had been influenced by the earlier imposition of anti-dumping duties upon its export of excavators to Europe. The company was at pains to point out that, to date, 10 are from Japan.

Wales's two most recent Japanese arrivals are the Sharp Corporation and Brother Industries, which both opted for the Wrexham area of north Wales to establish major manufacturing facilities for products which, from the point of view of EEC-Japanese trade relations, had become sensitive items; namely video tape recorders, electronic typewriters and microwave ovens.

In another example, producers lobbied hard last year to prevent Yamazaki, the Japanese machine tool producer, from building a £29m autometric plant at Worcester to produce lathes and machining centres. In this instance, the company sought to allay the fears of its continental competitors by suggesting that the new plant may export its finished products to Japan.

Generally speaking, the importance of trade restrictions as a factor encouraging inward investment is sometimes lost sight of in the hard sell, promotional battles between different parts of Britain and their emphasis upon the superiority of communications infrastructure, excellent labour relations, etc.

This observation is particularly true of Wales which, for many years now, has been seeking to attract as much inward investment as possible, not only from abroad but also from other parts of the UK. This has been in order to replace the declining job opportunities in its traditional industries, notably coal, steel and agriculture.

The net result is that Wales, these days, boasts over 200 overseas-owned companies of which just over half are from the US. In short, they have set management and performance standards which many other Welsh-based companies now seek to

This tie-up appeared an ideal solution to the problem of international economic and technological adjustment in a major industry. The benefit of Japan's more advanced television technology was to be applied to modernise a significant slice of British manufacturing capacity in a way which would safeguard rather than undermine the jobs of the 2,000 workers then employed at Hirwaun.

In the event, the marriage was not a success. It has been the case with other UK-Japanese joint ventures during the past year or so. In the event of a divorce were agreed: though not before there had been a series of redundancies, short-time working, a pay freeze and more than one strike.

Hitachi, having bought out GEC's share, has since proceeded to introduce the full paraphernalia of Japanese management style and practice, including the removal of all demarcation, and the granting of single union negotiating rights—in this instance to the electricians' union, the EETPU.

The union, in turn, accepted the introduction of pendulum arbitration—the controversial so-called no-strike agreement whereby in the event of a dispute an arbitrator will recommend either management or union position without seeking a compromise—and, more unusually, a further 400-plus redundancies.

However, Hitachi's Hirwaun plant now appears to have turned the corner. Recruitment has recommenced—it is in the process of taking on 200 new staff—and a diversification into the production of video recorders has been introduced. Whatever the motivation or inspiration, Japanese manufacturing investment has been widely welcomed in Wales. It has offered a source of secure and growing employment in a jobs-hungry economy. It has also helped to establish new standards of manufacturing efficiency and wise investment.

Since they first put down roots, most Japanese companies in Wales have undertaken regular investment to increase and upgrade the local content of their products, and in other instances to expand their product range, increasing the number of secure jobs available. In short, they have set management and performance standards which many other Welsh-based companies now seek to



The fastest-moving bank in Britain.

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Advertising

TOP TEN

Name	Fee £m
1 Saatchi & Saatchi	162.00
2 J. Walter Thompson	142.60
3 Ogilvy and Mather	110.90
4 D'Arcy MacManus	107.00
5 Dorland Advertising	102.00
6 Leo Burnett	82.40
7 Foote Cone & Belding	81.95
8 McCann-Erickson	78.70
9 Boase Massini Pollitt	76.90
10 Young and Rubicam	76.72

Source: Campaign (Jan 1985).



Maurice (left) and Charles Saatchi: dynamic management has put their agency at the top of the league.

Emphasis on strong public relations

Advertising

DAVID CHURCHILL

THE ADVERTISING and public relations business in Britain have stayed remarkably buoyant during the past few years in spite of the tougher economic conditions which in the past would have led to companies cutting back on their promotional spending.

During the 1980s British companies have come to realise that when their markets are under pressure, it is even more important to maintain market share through advertising and PR activity. It costs more — and is less certain — to rebuild a brand's strength after it has lost market position.

Yet the tight financial controls employed in many companies has meant that PR has actually fared better than advertising in most years. Companies with advertising budgets running into the millions have found that even a small increase in PR expenditure — where most account fees are far less than £100,000 — can make a significant difference in achieving marketing targets.

Not surprisingly, Britain's PR industry is enjoying its best ever year with the 110 members of the main trade association — the Public Relations Consultants Association — earning

over £40m in direct fees. British companies are estimated to spend up to £500m in total on PR in all its forms — including in-house departments and direct print and promotional expenditure.

The growth of PR activity in the UK has even outstripped its popularity in the US. In 1979 in America some 78 per cent of the top 500 companies took PR consultancy advice.

Compared with only 21 per cent of the top 500 UK companies.

By 1982 the same company showed 82 per cent consultancy use in the US and 36 per cent in the UK.

By 1984, however, the UK was catching up fast. Consultancy use by top companies in America rose to 84 per cent while in Britain the figure rose to 89 per cent. In fact, 45 out of the 50 largest companies in Britain now employ a specialist PR consultancy.

Why is PR — especially consultancy PR — doing so well? One reason is that consultancies offer a more extensive — or additional — service than traditional in-house departments and thus companies are more willing to embrace PR.

Generally, however, the boom in PR is ascribed to the growing awareness of companies of its value. "As the commercial world becomes more complex, so does the need to get the message across," argues Mr Tony Good, chairman of Good Relations Agency, for example.

Scott agency, for example, expenditure.

acquired Biss, Lancaster earlier this year, in a deal which could be worth up to £8.5m. Saatchi and Saatchi recently made its much heralded move into PR with the takeover of Kingsway PR.

The Foote, Cone, and Belding advertising agency already owns two PR companies — Carl Byoir and Welbeck — while some other PR consultancies such as Charles Barker also have extensive advertising interests from other parts of their group.

Two major consultancies — Hill and Knowlton and Burson-Marselis — are part of US communications groups.

Kevin Traverse-Healy, immediate past president of the Institute of Public Relations as well as working in consultancy PR, points out that "the spate of merger activity has shown up the lack of corporate awareness by a number of major companies."

The growth of PR is, not surprisingly, attracting the attention of the major advertising agencies who not only see PR as a threat to traditional advertising revenues but also as a means of capitalising on a growth sector.

The Wight Collins Rutherford Scott agency, for example,

PR Consultancies

TOP TEN

Name	Fee income £m
1 Good Relations group	5.1
2 Charles Barker Group	4.6
3 Shandwick Group	2.9
4 Burson-Marselis	2.8
5 Dew Rogerson	2.1
6 Welbeck	1.9
7 Hill & Knowlton	1.8
8 Daniel J. Edelman	1.6
9 Kingsway	1.5
10 Carl Byoir	1.4

Source: PR Week (Sept 1985).

A retail lesson in meeting aspirations

sumer tastes.

Prime among these changing tastes has been the increased consumer awareness of shopping as a statement of their lifestyle. The key group with money to spend consists of young couples with children and owning their own home.

These 25 to 45 year-olds come from the C1 and C2 socio-economic classes — broadly what used to be called the upper working and lower middle classes.

Marketers within UK companies are gaining the status that used to belong exclusively to accountants, engineers, or lawyers. As more executives rise to the top from the marketing function, it is clear that this discipline is making itself felt.

This new pre-eminence for marketing is nowhere more obvious than within the retail sector which has proved to be one of the most dynamic areas of UK business in the 1980s.

Marketing in retailing depends upon marketing-based innovation, says Mr Richard Easby, a leading marketing consultant. He believes that the range of new methods of marketing in retailing is considerable. There is market segmentation by age, as in many clothes shops such as Next or Principles, or by product as in the arrival of stores specialising in everything from health foods to computers.

Retailers have had to respond to changing market conditions brought about by the recession and the fall in inflation rates. In the past few years, during the 1970s, when inflation was high, most retailers had a relatively easy time since stocks held appreciated rapidly in value and consumers came to expect price rises.

However, when the inflation rate fell, retailers had to fight much harder to maintain and enhance their market share. They were operating, moreover, against a background of declining real consumer expenditure going through traditional High Street shops.

In 1980, for example, some 53 per cent of consumer expenditure went through traditional shops. By 1980 that figure had fallen to 43 per cent and is currently estimated at 39 per cent.

What this has meant is that these retail operations which have developed new retailing formulae to meet the needs of the British consumer of the 1980s have proved most successful. Companies like Habitat/Mothercare, the Burton group, Tesco, J. Sainsbury, and Marks and Spencer have all capitalised on changing con-

sumer tastes.

The cost of retail computer technology has fallen by some 30 per cent in the past three years and this is fuelling what we predict as an explosive growth in electronic point of sale for the rest of the decade," claims Mr Richard Snook, ICL's manager in charge of its retail division.

Laser-scanning checkouts are expected to become the norm in most large supermarkets by 1990 while by that time there are expected to be several experiments in operation for electronic funds transfer at the point of sale — automatic debiting of customers' bank accounts when they pay at the checkout.

Teleshopping at home via viewdata systems or home computers will also have become established by the early 1990s, although this is likely to appeal only to a minority of consumers.

Other marketing trends include the cross-selling of financial and other services, previously outside the scope of what people would buy from o

shop.

Apart from these retail and consumer marketing trends, what is the state of the marketing infrastructure in the UK?

Britain as a conference and exhibition venue is becoming increasingly popular — not only because of its traditional culture and attractions as a country hot also because of the improved facilities.

Sponsoring at conferences in Britain is now running at about £20 per head per day, against £26 in 1984, and £20 in 1982.

The National Exhibition Centre, just outside Birmingham, has become a popular international venue for conferences and exhibitions. Last year it accounted for about 37 per cent of spending on exhibitions by British companies and considerably more if overseas ones are taken into account.

Apart from the NEC, there are established exhibition venues such as Earls Court and Olympia, as well as newer ones such as Harrogate and the Barbican.

Some 680 large-scale conferences are held in the UK each year, with about 150 attracting 1,000 delegates or more.

How do you choose the right location with so many others in the running?

Washington

In Nike's case they used simple logic. As the world's leading running-shoe manufacturer, parented in the USA, they knew exactly what a Nike-UK operation needed: fast and efficient distribution; a highly motivated workforce; keen local suppliers; and an environment which would appeal to relocated management personnel.

Nike looked at 6 sites, most of them near London and they chose Washington, Tyne & Wear.

So how much of what they wanted did Washington give them? For a start, they enjoy better distribution with lower overheads than they'd get in central England. The local workforce is enthusiastic. First-class suppliers are on their doorstep. Relocated personnel have all the advantages of lower cost housing and the extensive amenities of the North East.

And that's not all.

Within one year of settling into Washington, Nike turnover had doubled. So did the workforce. After 3 years, Nike sales were up 20-fold. The company is well embarked on a programme of expansion that will probably bring them to within panting distance of Adidas in the general sports-gear market.

And they did it all from Washington, with the help of the best financial package available to any development area in Britain.

In the words of Managing Director, Brendan Foster: "The best thing Nike ever did was to set up their company in England; the second best thing they did was to set it up in Washington."

If you'd like to learn what Nike learned, contact Norman Batchelor, Washington Development Corporation, Usworth Hall, Washington, Tyne & Wear. Telephone: (091) 416 3591 Telex: 537210 DC WASH G.

It will help your business to walk. Running comes later.



Washington. Profit from our experience

Investing in Britain 14

Pendulum swings in favour of the tenant

Property

MICHAEL CASSELL

ONCE THE decision in principle to establish a business in Britain has been taken, the practicalities of finding property are not far behind. Where to locate, what type of accommodation to occupy, the tenure options available, all require detailed consideration and speedy decisions.

The first conclusion likely to be arrived at by many incoming companies is that the commercial landlord in the UK is used to having everything his own way.

Tenants are generally expected to sign long leases — 25 years is the norm — and any rental agreement is unlikely to include a break clause, meaning that a decision to leave before expiry of the lease will entail finding someone to take it over.

They will also be responsible for full insuring and maintaining their property.

Such facilities are long-established in the British commercial property market's structure but can come as a rude shock to occupiers used to operating in regions of the world where the landlord has not been quite so all-powerful.

From now on at least, newcomers may find that the pendulum has begun to swing more in their favour. The recent generally weak state of the UK commercial property sector, in which oversupply has stifled rental growth, means that the tenant has enjoyed one of those rare periods when he can at least start to call the tune.

As a result, shorter leases — down to five years — are becoming increasingly implemented and break clauses too are beginning to work their way into letting agreements. It would be an over-exaggeration to suggest that they have become normal and the institutional landlords, who represent a major force among landlords, remain reluctant to abandon their old habits. Even so, the picture is changing.

An increasingly significant trend is the development of office buildings designed for

freehold, rather than leasehold tenure. Years of landlord dominance has encouraged the shift towards outright ownership, for precisely the same reasons that have seen owner occupation in the housing market rise in recent years from around 50 per cent to 63 per cent.

Freehold ownership provides a company with an enhanced ability to decide its own future and, most importantly, gives it an asset base which can prove very useful when it wants to borrow money. The occupier, it is true, will be faced with all the overheads and management responsibilities which go with ownership but they would still have to be confronted if the property was held on a long lease.

Most freehold schemes have been confined to the smaller end of the office market, though this type of property could well appeal to the company involved in a start-up operation. The major snag is that few of the newly-developed schemes are likely to be centrally located, given the traditional landlords' reluctance to give up freeholds to occupiers in prime locations.

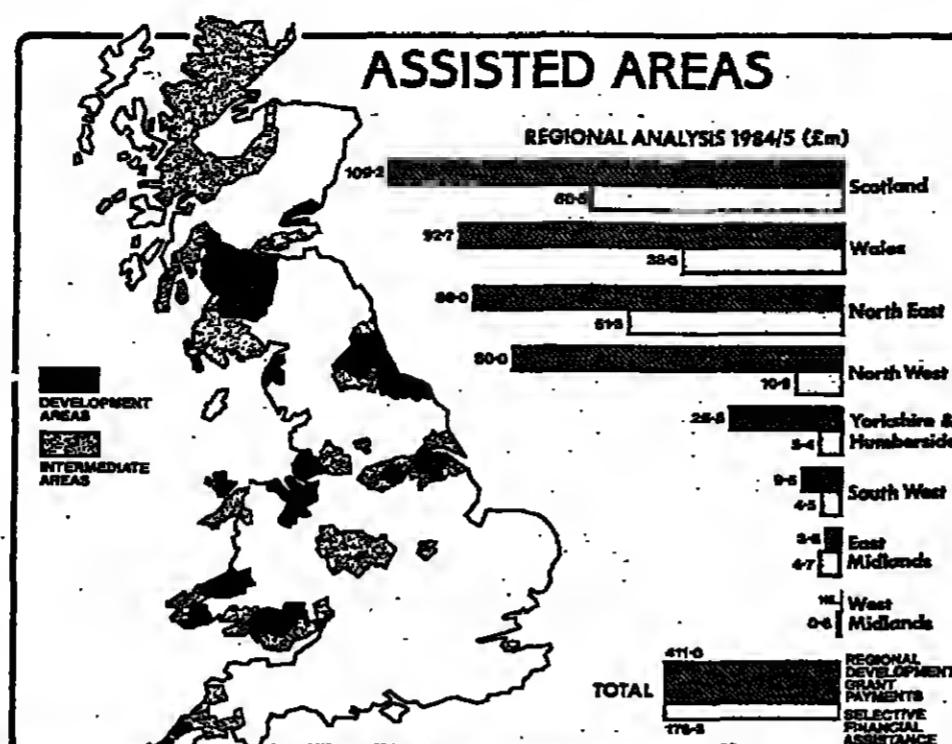
Accommodation

Irrespective of the choice of tenure, the latest generation of development in the UK is providing a range of modern business accommodation which, until recently, the UK development industry had not considered necessary.

The all-important influence of development trends in the United States has begun to have an unmistakable impact on the pattern of commercial development in the UK, with flexible, so-called "high-tech" space mushrooming in attractive campus developments around the country.

In the development industry's determination to provide the latest and highest standards of accommodation, building classifications have become somewhat confused but the overall intention has been to provide a flexible mix of multi-use accommodation designed to cope with an expanding company's space requirements and product evolution.

The natural magnet for development has, inevitably,



The trend in Britain is away from traditional factories and warehouses, and towards space that can be used for production, offices or research, in line with modern industry's needs. This scheme in Swindon was speculatively developed by Royal London Mutual Insurance.

been the southern half of the country, around the Greater London area, out along the Thames Valley and, to a more limited extent, north east of the capital towards Cambridge.

The geographical advantages of the region, close to Channel ports and airlinks (with the growing prospect of a fixed link to Europe) provide the natural incentives for property development but the pressure on available development space in the most popular areas has inevitably made accommodation increasingly expensive. So while rents in London can exceed £35 a square foot, good quality accommodation in some major provincial cities can be had for under a tenth of that figure.

Companies locating in the south east must be prepared to pay a large premium for doing so and many, depending on the

nature of their business, might do worse than consider locating further afield, possibly to one of the major towns which have been pursuing aggressive marketing campaigns designed to extol their own particular virtues.

There can be significant financial incentives available for space takers prepared to succumb to the blandishments of those towns vying for new businesses. Even a potted description of the incentives available from the UK Government and from EEC sources runs to 150 pages but detailed advice is available from a variety of property-oriented organisations such as English Estates, the Development Commission or the Council for Small Industries in Rural Areas.

A major, new initiative on the part of the Commission for

New Towns, which is charged with the task of selling the property assets of 12 mature New Towns, could help the newcomer decide on the most appropriate location.

In November, the Commission opened its own shop window in London's Piccadilly. According to Sir Neil Shields, chairman of the Commission:

"Any company looking for the ideal site for expansion, relocation or even its first premises, can come to our offices at Metro House and find all the answers in one place. It is really a 'one-stop' shop."

Callers can hardly expect to be recommended to locate somewhere beyond the 12 towns on its books but, within the confines of its brief, the Commission's information centre can be expected to provide good advice on the complete range of opportunities and properties available.

The Commission's towns extend from Harlow and Hatfield, as far as Skelmersdale and Central Lancashire.

The Commission refutes any suggestion that, spurred on by a government which has handed out huge discounts to buyers of public sector housing, it is selling off assets at anything other than full market values. But with a land and property portfolio worth over £1bn and ready for sale, potential buyers can rarely have had such an impressive catalogue to choose from.

One-stop shopping for necessary advice

MANY FOREIGN companies seeking to set up business in the UK will already have some knowledge of the services they may expect to find here, especially from chartered surveyors, says David Yorke, vice-president of the Royal Institution of Chartered Surveyors (RICS) and himself a practitioner. About one in 10 of the holders of the chartered surveyor qualification actually practice outside the UK.

Their activities span the world and cover 145 countries but, says Mr Yorke, they will be most readily recognised by businesses coming from France, Belgium, the Netherlands, Germany, North America and the Far East, where many UK practices have active branch offices.

Although the RICS is divided into seven divisions, in an attempt to make their range of skills more easily understood to overseas clients the work is set out under three main headings: surveying and mapping; construction economics; and land administration. The RICS's current directory of international practices lists no fewer than 25 separate activities under these groupings.

For the overseas investor in this country, Mr Yorke says, chartered surveyors provide the security of a profession in which qualification can also change and up-to-date professional advice can save thousands of pounds.

The next stage is the evaluation and negotiation leading up to site acquisition — a process often intertwined with applying for and obtaining planning consent. The British planning system is unique and most overseas investors would, without detailed professional guidance and preparation, find it almost impossibly complex, time consuming and frustrating. Even the warning of possible long delays could help the investor avoid serious planning pitfalls.

The surveyor could also get involved in negotiating finance for a project in the case of a new building — or indeed he may advise the client that rented or leased accommodation might be more suitable. In this respect Britain differs from many other countries.

A typical surveyor can look after a foreign businessman from the time he decides to consider a commercial or industrial development in this country to the day he occupies the premises — and beyond. His first advice will probably relate to

the most suitable site for the client's needs. This will take into account fundamental considerations such as location, both from the point of view of accessibility to ports, airports and motorway junctions; general distribution needs; other communications; potential and availability not only of labour in general, but of the kind of labour required, which could be highly specialised.

Another factor in the choice of location unique to Britain is the network of national and local incentives in the form of direct grants from local or other authorities, or in the form of planning "holidays" and rates reductions as in the case of enterprise zones. Rates which are property taxes — do not exist in some countries and through one of many financial services techniques which exist involving mortgaging and sale and leaseback — all depending on the client's financial status.

Should the client seek to

build more than his immediate requirements, his surveyor will help him let the surplus space, advise him on the complexities of British landlord and tenant legislation. He will also offer to take on the management and long-term maintenance of the property to ensure it retains its investment value over many years. This includes important elements such as energy efficiency, which are best dealt with at the design and construction stage, and suitability for changing needs and uses.

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Selected prime industrial rents and rates

	£ per sq ft per annum	Annual 1984-85
London	4.80	3.0
Croydon	5.85	5.8
Birmingham	5.90	3.2
Edinburgh	4.60	4.5
Glasgow	3.30	2.5
Cardiff	3.60	5.2
Leeds	3.10	4.7
Manchester	3.35	5.4
Reading	5.70	6.4
Southampton	3.80	5.1

Source: Delaham Tewson and Chinock

“Here at Revlon, replacing our central oil-fired boiler with an electrode boiler has saved us £49,000 a year in fuel and maintenance costs. On a capital investment of £10,000 we've achieved a pay-back of under three months. Furthermore, response is faster so our production flexibility is improved.

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Malcolm Bond, General Manager, Revlon Manufacturing UK Limited, Maesteg, Mid Glamorgan.

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ELECTRICITY TALKS THE LANGUAGE OF INDUSTRY.



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FRENCH INVESTMENT IN THE MIDLANDS



Production of the Peugeot 309 hatchback (above) is being stepped up at the Ryton, Coventry, car factory. The UK management is meanwhile seeking support from its French parent group to assemble a planned new middle-range car, code-named the D-60, which would compete against the Montego and Sierra at the heart of the fleet sector

A wide choice of structures

Starting a company

RACHEL DAVIES

articles and memoranda, and are all set to start business.

The shopkeeper will look for whose objects more or less suit his purpose. The name may be somewhat startling, but that can be changed, while the company operates, as can the registered office and incorporation clauses in the memorandum or articles.

So, for speed and sometimes for slightly less cost, the shelf company may be the promoter's choice.

Formation of the company is the easy part. Once it is ready to trade the difficulties begin. Most UK businesses have problems understanding the intricacies of commercial law requirements, and the foreign promoter of a UK company is unlikely to be in a better position.

The company will have to be administered in accordance with the Companies Act, finance may have to be found. Premises may have to be bought, rented or leased—or even built. Patent searches may have to be carried out or government consents and licences obtained.

Book keeping

A new employer will need to understand the law relating to contracts of employment, maternity leave, redundancy, national insurance, VAT, income tax. He will have to keep books in accordance with the law, take out insurance, collect and pay value added tax.

Commercial transactions will require an understanding of concepts peculiar to English law. A businessman from a non-English law country may be unfamiliar with the idea of a long lease—or he may not realise that consideration is an essential ingredient of a contract.

From formation onwards the company will need experts—a commercial estate agent perhaps, or an insurance broker, financial adviser, legal adviser, accountant, or patent agent.

The foreign promoter of a UK company would be well-advised to seek out his experts before he embarks on his adventure. And he would be well-advised to get hold of Clifford & Turner's Doing Business in the United Kingdom published by Matthew Bender, which, with the utmost clarity, covers every imaginable aspect of UK business law and practice.

It is therefore the ideal vehicle for anyone who is anxious not to render himself over-vulnerable while dipping his toe in or plunging into the muddy waters of UK commerce.

The solicitor will draft a "memorandum of association" setting out the objects of the company, and "articles of association" setting out its internal regulations. They will then be filed along with various other documents, including particulars of directors and the company secretary, with the Registrar of Companies.

It takes the Registrar about six weeks to make sure that all registration requirements are satisfied, and he then issues a certificate of incorporation.

Shelf company

If the company is private it will be ready to start business straight away. If it is to be a public company, in that it intends raising money by offering shares to the public, it will have to wait longer, because registration requirements are more stringent (for instance it must have a nominal authorised share capital of at least £50,000) and it cannot operate until the Registrar has issued a certificate to do business as well as the certificate of incorporation.

An alternative and quicker way to get going is to buy a "shelf company".

These are companies (usually private) which have already been registered and are held in stock by solicitors, accountants and company registration agents. They have a name, a registered office, and a

How Peugeot found the right track

"THE DECISION by Peugeot, of France, to invest £30m in the UK was taken because the performance of our people justified it". That is the simple explanation given by Mr Geoffrey Whalen, managing director of Peugeot-Talbot UK, as he surveys the new assembly facilities at the Ryton factory, Coventry, where output of the 309 hatchback is being stepped up ready for launch next month.

He says: "Four years ago our quality and productivity were indifferent, but by working as a team, by recreating our workpeople's feeling of responsibility for the products we make for the customer's needs, we have revolutionised our performance."

In fact, the changes at the Coventry-based company have been dramatic. New work practices have been introduced, productivity has soared and the old image of the city as the home of "the mindless militants of the car industry" is a new enchantment.

Volunteer

He goes on: "When shopfloor workers volunteer to spend their weekends, without extra pay, going out and helping to sell their products to the public it shows how proud they are of their craftsmanship. This is what is happening at Ryton and it is a mark of how much progress has been made."

Peugeot has adopted an unusual state of management, commanding direct contact with the workforce through its own supervisory structure

rather than through the trade unions.

The tracks at Ryton are stopped for half an hour at least once a month so that the management can give detailed information about production requirements, quality and market performance.

Management is required to give a lead in explaining the reasons and the actions necessary to raise productivity and quality. Newspapers and video presentations supplement the regular briefing sessions.

Mr Whalen argues: "I believe we are proving that British industry can be competitive without having to adopt Japanese habits which are alien to our culture and tradition. The real need is to communicate with employees to involve them and make them feel part of a team which would create another common goal."

Mr Whalen insists it was the quality and productivity delivered by the UK workforce that led Peugeot to commit £30m to modernising British facilities and introducing the new 309 range of cars which will compete in the Escort, Astra, market sector where future sales are important.

The British Government made a contribution of £2m of assistance under the Industry Act, also extending the repayment time on an out-

standing £25m loan originally given to Chrysler in 1985.

Production at Ryton of the Alpine Salara and Horizon models was halted late last year and output of the 309 started at 750 vehicles a week. The 1,400-strong labour force has been increased by 200, largely through transfers from the Stoke plant, ready for output of 1,000 cars a week from next month.

Hope

Depending upon the sales success in Europe of the new car, which is also assembled at Peugeot's Paisley plant in France, Ryton could be called upon to supplement output of left-hand drive vehicles. The hope is that by the summer Ryton could push production close to single shift capacity of around 1,250 cars a week which would create another 200 jobs.

By next year there is the prospect of the introduction of a night shift for the first time for more than a decade and the creation of yet more jobs.

The UK management is seeking support from its French parent to assemble at Ryton a planned new middle-range car, code named the D-60, which would compete against the Montego and Sierra at the heart of the

fleet sector. Continued success by Ryton in delivering quality and efficiency will clearly be important to the decision, which is expected this spring. No investment figure has been revealed for the multi-million pound project but assistance is being sought from the British Government.

Another factor which the French parent must take into account is the preference among fleet purchasers to buy British. The issue is becoming more political with the government putting pressure upon both Ford and General Motors to Iran were around £75m in 1984, against the £110m of the previous year but are expected to be sustained at the lower level.

Mr Whalen attributed his company's \$13.1m pre-tax losses for the first half of 1985 mainly to lost revenue from Iran. Deliveries were resumed in the second half to give Peugeot Talbot a trading profit, though the company will finish the year in the red.

Mr Whalen maintains that in spite of the uncertainties surrounding the contract with the Iranians it will not affect Peugeot's investment in the UK. He says Iran now accounts for less than 20 per cent of turnover and that the French parent has taken "a fundamental decision" that investment will be based only upon the subsidiary's performance in the UK.

Mr Whalen is looking for further investment and growth for what is the UK's fourth largest car assembler.

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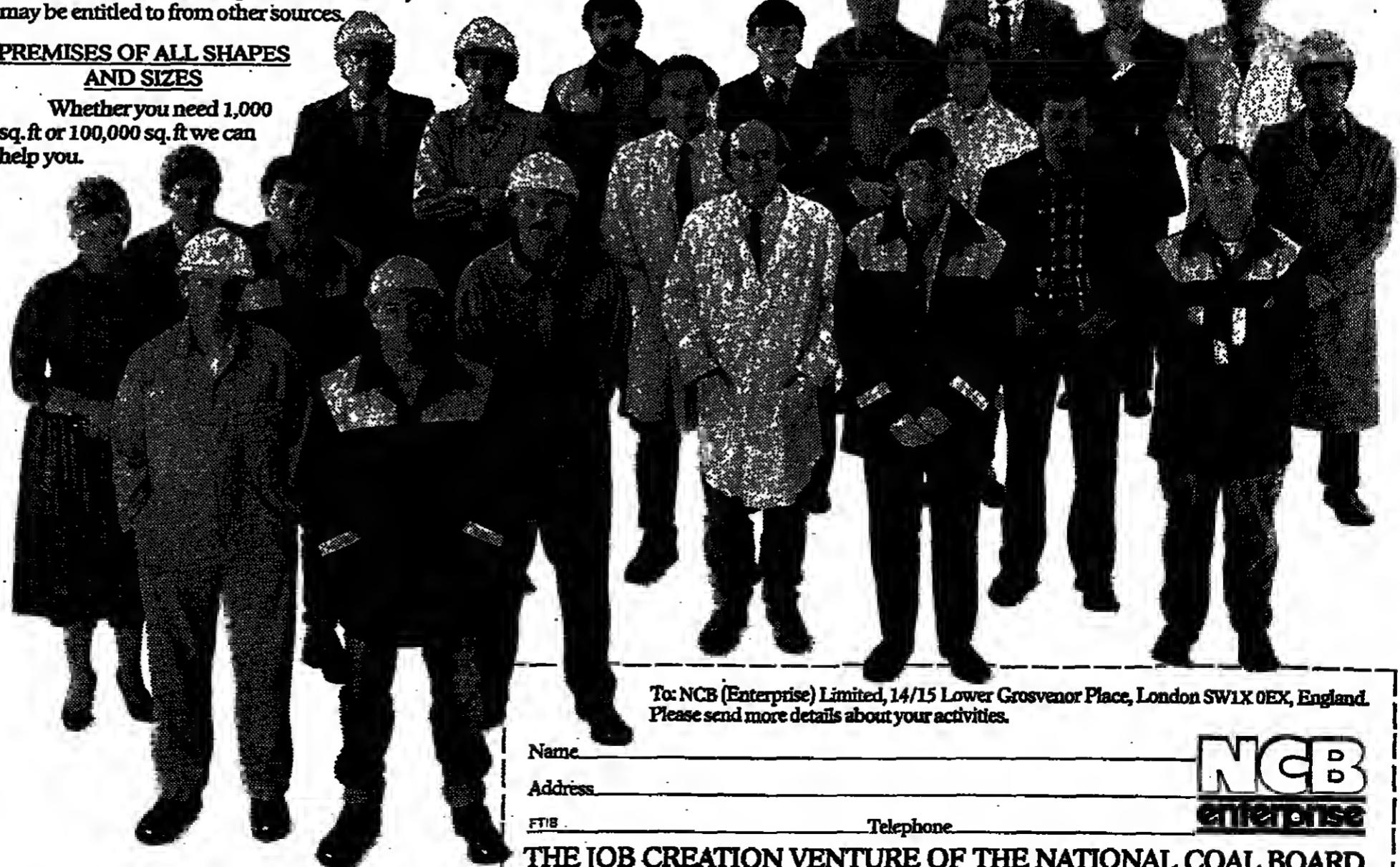
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ENTERPRISE
THE JOB CREATION VENTURE OF THE NATIONAL COAL BOARD.

Foreign investments

Investment decisions and associated employment by foreign-owned companies in 1984

Ranking	Country of origin	Number of projects*	Jobs created†	Jobs safeguarded‡
1	US	134	16,376	6,651
2	FRG	38	1,138	883
3	Canada	18	300	344
4	Japan	16	6,192	—
5	Rest of World	12	1,535	1,167
6	Irish Republic	12	453	296
7	Sweden	9	261	22
8	Switzerland	9	239	148
9	Netherlands	7	466	189
10	Denmark	5	155	36
11	Finland	5	202	2,839
12	France	5	106	3,238
13	Italy	5	106	—
14	Belgium	4	72	138
15	Hong Kong	3	225	—
15	Norway	3	101	—
Total		285	28,125	17,991

* Investment decisions (including first-time investment, expansion, takeover and joint ventures).

† Estimate of long-term employment associated with the project; not every decision is accompanied by an employment estimate.

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London flagship essential for major groups

Hotels

ARTHUR SANDLES

FIELDS IN which investment demand exceeds opportunity supply are rare enough these days, but such is the London hotel market. Dozens of international hotel groups, would like a London flagship, many are active seeking one, and those that have such a property are either looking for more or seeking further development in the UK provinces.

Since Hilton arrived in the sixties there has been a stampede for space in the UK capital. In recent years Hyatt and Marriot, Sheraton and Inter-Continental and Holiday Inn in coming to the city. Hilton, meanwhile, has expanded in London and moved out of the city as has, extensively, Holiday Inn and, more recently, Ramada.

Of course, hotel investments are not as simple as they sound. The management company does not always, or even often, own the fabric of the building and the investors may keep a fairly low profile. Not always, perhaps, as low as they would like. When Regent International Hotels, with Hong Kong and US money, bought the fabric and the management contract for the Dorchester the move was peaceful. When Regent then sold the building, but not the management, to the Sultan of Brunei, the repercussions were considerable.

In London, management companies are frequently willing and sometimes eager to put up some of the long term costs. The reasons for this are not too difficult to trace. Hotels are extremely difficult to find and the deeper you are prepared to dig into your own pocket the more likely you are to find one; at the same time, UK investments tend to look fairly secure ones to international hotel groups which often run properties in much less stable economic and political grounds.

At the moment London properties are being sought by such



The UK hotel market remains lively, with London a key target for international hotel groups. Above: the entrance to Grosvenor House Hotel in London's fashionable Park Lane.

companies as the Air France subsidiary, Meridien, and Holiday Inn, which is already strongly represented but lacks an operation in or near to Mayfair, where the real hotel action is. Both of these will put up their own cash if the opportunity is right.

But is it likely to be? London's major hindrance is UK planning procedures, regarded by many foreign investors as too democratic by a long chalk. Local residential objections to further hotel development in such areas as Westminster, Mayfair, Kensington and Chelsea are considerable and central Government has little power to force through something to which a local authority objects (other than "national" projects such as motorways and systems).

The present UK Government has promised that it will do something to speed up planning procedures, but whether this will mean removing or reducing the present element of local democracy remains to be seen.

In the absence of such changes the prospects for present owners of London properties would seem bright. In 1985 the British capital had the house full notices up as far as four star and de luxe properties were concerned for part at least of the summer season. Few people expect 1986 to be such a spectacular year, thanks partly to the reduced value of the dollar, but even if occupancy fell back to 1984 levels few in the city would be reduced to tears. Historic indications are that almost whatever happens hotel investors can rest secure on their real estate values.

Unfortunately the cost of entering the UK market, either in London or in the provinces, remains high in comparison with many other countries, building costs tend to be high, land is pricey, planning procedures held in a delay which can lead to interest charges and building regulations and fire precautions are tougher than most hoteliers face elsewhere.

If it were possible to build an hotel in London the costs would almost certainly exceed £120,000 a room. As a result of this the purchase value of four star and de luxe properties will be moving

Coupled with this is the denied demand of the British domestic travelling public, particularly the business travellers, for a somewhat higher standard of accommodation than once might have been provided. Holiday Inn has certainly found a ready market for its products and domestic companies such as the long-established Travelodge Forte and relatively newcomers like Ladbrooke have struck a profitable vein in provincial urban locations.

There are also signs that further attempts are being made to crack what has long seemed an impenetrable problem in Britain, the provision of new, budget priced, tourist accommodation. TPI is experimenting with a series of properties on site it currently uses for its Little Chen, Highway side, family restaurants operations and there are indications that at least two French budget motel operators will be moving

into the UK market—local planners permitting.

All in all the UK hotel market is a lively one and one which seems set for success in the foreseeable future. It is also one which national Government and, apart from central London, local authorities, are enthusiastic to encourage. Most foreign investors will point out that patience between ideas stage and key-turning may be a necessary virtue, but most of the present hotel owners, facing as they are a queue of buyers eager to enter the race, would say that the wait was worth while.

* Arthur Sandles, FT Travel Editor, completed this article shortly before his sudden death on January 5.

The great British success story

The Arts

ANTONY THORNCROFT

THIS YEAR the Arts Council, in an attempt to squeeze more money out of the Government for its 1986-87 grant, published a prospectus entitled "The Arts: the Great British Success Story." Few disagreed with its basic thesis that the arts was one area where the UK had been successful in the post-war years.

British actors, playwrights, artists, sculptors, writers have an international reputation; British arts organisations, the National Theatre, the Royal Opera House, the Royal Shakespeare Company, the major orchestras, are assured of large audiences and critical acclaim when they tour abroad. On the surface the arts are in good

shape. But beneath the surface there is seething discontent, a muttering of unrest which links the majority London-based organisations, like the Royal Opera House and the National

Theatre, with the myriad of local arts centres and ethnic performance groups. The cause of this unhappiness is, not surprisingly, money.

According to the Government, the arts have been well treated during its stewardship, with an increase in grant to the Arts Council (the main source of

funds for the performing and visual arts) from £61m in 1978-80 to £136m, just announced, for 1986-87, a rise in real terms of 7 per cent. But this takes no account of the fact that inflation in the arts, a very labour-intensive industry, has risen higher than basic inflation, and of the policy of the Arts Council to redistribute state aid away from London, and the big national companies based there, and towards the regions. Above all, the arts face a cash crisis because of the abolition of the metropolitan councils from next April 1.

The metropolitan councils have been generous supporters of the arts, in particular the Greater London Council. It has been estimated that the met county spent over £40m a year on the arts, although some of this was more like social welfare. The Government has only given the Arts Council an extra £25m to make good the disappearance of this tier of government. It believes that the remaining tier, the local authorities, should provide the difference.

Unfortunately many of them could well have limitations placed on their spending power under the rate-capping procedure, and although there may be a willingness to make good the shortfall, the practical ability will be absent. Take Sadler's Wells in London: the GLC gave it around £150,000 this year. In addition it advanced £500,000 towards its

rebuilding policy. The Arts Council has already announced that it cannot step into the breach in funding this theatre, and others, such as the Liverpool Empire and the Theatre Royal, Newcastle, which were aided by their local mets. Can the London borough of Islington afford to take on Sadler's Wells? Undoubtedly in the next few months there will be many stories of theatres and arts organisations threatened with at least temporary closure for lack of funds.

The London commercial theatre is booming (or rather doing better than in the recent past), and theatre attendances nationally, at around 40m, far exceed the crowds for football matches. Concert audiences are buoyant, with the South Bank showing a rise after years of decline, thanks in part to the open foyer policy. Even cinema attendances have started to rise again.

There has been a rush of new theatres opening around the country, most recently in Winchester. Arts centres are popping up everywhere and now introduce 20m people to, not the more demanding arts, than at least some of developing experience. The Arts Council's "Glory of the Garden" strategy has brought the arts to those regions that, in the past, could justifiably feel that they were being starved of culture while London wallowed in abundance.

It is also widely accepted that the regions have a major role to play in a healthy British arts scene. The big four companies—Covent Garden, National Theatre, RSC and the English National Opera—now take a much smaller share of total arts subsidy, and along with bringing arts to the people by strengthening regional arts associations, the Arts Council has stressed the need for more resources for community and ethnic arts. It also tries to assist the national companies in touring.

The arts has been towards making the arts available rather than creating the conditions for the individual artist to bloom. But there have been plenty of successes in recent years, made to the benefit of the balance of payments. The arts necessarily contain many argumentative and vocal people keen to complain about Government failings, real and imagined. But somehow the arts continue to mount; perhaps a little more generosity by the Government could sustain what is undoubtedly a golden age well into the future.

Company service from cradle to maturity

Accountants

CATHERINE HARDY

THE range of services offered by accountants in the UK has grown rapidly, as the pressure on fees and the recession of the early 1980s limited the scope for expansion of traditional audit work.

Mr Nigel Moore of Ernst & Whinney explains, "The opportunity was seen for extending services to client companies and because an understanding of business is built up during audit work, and as accountants saw the client need for, say, permitting it made sense to have specialists in-house."

Indeed the Big Eight accountancy firms in Britain employ a

Waterhouse is the only Big Eight firm in the UK with more accountants than non-accountants on its staff.

Coopers and Lybrand has concentrated on growth in consulting and nearly a quarter of its fees come from this still rapidly-growing area, while 20 per cent comes from merger and small business work.

Mr George Westropp at Touche Ross — currently at number seven in the UK in terms of fee income—gives some examples of the extensive literature produced by accountants to show just how well equipped they are to help anyone considering investment in Britain.

To begin with Mr Westropp says "We produce a wide range of publications." For example "Setting up in the UK for Japanese business" is a recent addition to the list

The publication is presented in both Japanese and English and applies Mr Westropp says, "wherever you come from—whether it is Norway or Singapore. It covers everything you need to know."

"Tax and Investment Profile," from Touche Ross, goes into the business and fiscal details that an incoming investor needs, from the basics of company formation to how to patent a product in the UK.

Mr Nigel Moore agrees that accountants "can offer very much a comprehensive service—a cradle to maturity service." He explains: "We can advise on forming a company, the problems of, for example, VAT registration and PAYE. We can set up books and records, suggest a bank to go to, find premises and even staff."

At Coopers & Lybrand, Mr Peter Howes claims: "We have

built-up enormous expertise in trying to interpret investment laws and are well-qualified to advise, whether on investment for say, manufacturing, or a service industry like tourism."

An accountant's specialist knowledge of particular sectors can prove vital. "We pride ourselves on our ability to construct multi-disciplinary teams to advise people. This involves experts in whatever fields are required," he says.

Meanwhile, Mr Westropp states that Touche Ross can offer very specific services. If a construction company in Canada want to set up here, they would be advised by an expert in the British construction industry, he says.

The service can also be specific to individuals. Before now, he has even found a client a hotel to stay in during their visit to Britain.

Like most people, Colin Welland prefers gas for home heating. But, like many people, he didn't realise that gas provides getting on for *sixty per cent* of all the heat used in British homes. Nor did he know that it's the most widely used heat source in industry, or that this domestic and industrial demand brings many benefits to Britain. Benefits like jobs for British workers.

"BRITAIN'S FAVOURITE FUEL MAKES JOBS FOR BRITISH WORKERS"

For example, the gas people's own giant Morecambe Field, offshore from Blackpool, is being developed at a cost of more than one-and-a-half billion pounds. The major part of this massive investment is being spent with British firms, which has led to the creation of literally thousands of jobs for British workers. So, in a very real sense, Britain benefits because people prefer gas. Ask Colin Welland!

PEOPLE PREFER GAS—
AND BRITAIN BENEFITS

British Gas